AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
NINETY-SEVENTH CONGRESS
SECOND SESSION

Printed for the use of the Committee on Appropriations

PART 1 (Pages 1–769)

Department of Agriculture
Farm Credit Administration
Food and Drug Administration

U.S. GOVERNMENT PRINTING OFFICE
93-088 O WASHINGTON : 1982

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

S 181-27

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AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

TUESDAY, MARCH 9, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 9:30 a.m., in room 1318, Everett McKinley Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Abdnor, Stennis, Chiles, and Proxmire.

DEPARTMENT OF AGRICULTURE

SCIENCE AND EDUCATION

STATEMENTS OF:

- ANSON R. BERTRAND, DIRECTOR, SCIENCE AND EDUCATION
- TERRY B. KINNEY, ADMINISTRATOR, AGRICULTURAL RESEARCH SERVICE
- WALTER I. THOMAS, ADMINISTRATOR, COOPERATIVE STATE RESEARCH SERVICE
- MARY NELL GREENWOOD, ADMINISTRATOR, EXTENSION SERVICE
- RICHARD A. FARLEY, DIRECTOR, NATIONAL AGRICULTURAL LIBRARY

ACCOMPANIED BY:

- JOHN R. VICTOR, CHIEF, BUDGET DIVISION, SCIENCE AND EDUCATION
- ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

OPENING STATEMENT OF SENATOR COCHRAN

Senator COCHRAN. The subcommittee will come to order.

Today marks the beginning of hearings for fiscal year 1983 for programs falling within the jurisdiction of the Appropriations Subcommittee on Agriculture, Rural Development, and Related Agencies.

I am very pleased to begin another season of hearings with our ranking member of the subcommittee, Senator Eagleton, and I am delighted to have my colleagues Senator Stennis and Senator Proxmire, joining the subcommittee hearing this morning. I am looking forward to continuing our cooperative efforts as we address some very difficult issues that are facing American agriculture.

FEDERAL PROGRAMS RELATING TO AGRICULTURE

Our bill will provide funding for a widely diverse number of Federal programs, which include the research, conservation, lending, price support, export, and nutrition programs administered by the Department of Agriculture, as well as the activities of the Food and Drug Administration and the Commodity Futures Trading Commission.

We have just emerged from a very difficult budget year—and, indeed, a challenging year for the appropriations process—as we attempted to balance important needs in the areas of agriculture and nutrition with the urgent need to bring Federal spending under control. We will continue those efforts in this subcommittee this year, one which promises to be as equally challenging as last year.

For fiscal year 1983, we are presented with administration requests for further cuts in several appropriation accounts, and the elimination of certain programs altogether. This subcommittee intends to weigh those requests very carefully. The input received in our hearings from administration and public witnesses alike will be a vital part of the process we use to determine funding levels and priorities in our bill.

Agriculture is the Nation's biggest industry and employer. Approximately 22 million Americans work in some phase of agriculture—from the production of food and fiber to the marketing of products at home and abroad. Every American is affected by the complex food marketing system we have developed in this country, and this subcommittee remains firm in its resolve to support American agriculture and the programs which have assisted in its phenomenal growth.

ECONOMIC DIFFICULTIES FACING AMERICAN FARMERS

It is certainly incumbent upon this subcommittee to be fully cognizant of the economic difficulties that are facing American farmers and, indeed, all Americans who benefit from our agriculture and nutrition programs.

Depressed market conditions, higher production costs, and high interest rates have placed incredible burdens on the farming sector, just as current economic conditions have affected the ability of millions of Americans to provide themselves and their families with a nutritionally sound diet. It is this subcommittee's mission to fund programs at adequate levels that will address these problems and promote economic recovery.

Before introducing the panel this morning, I would certainly be happy to yield to Senator Stennis and then Senator Proxmire for any observations they may care to make as these hearings are opened.

STATEMENT OF SENATOR STENNIS

Senator STENNIS. Mr. Chairman, Senator Proxmire, and other members and witnesses too, I am very proud to have been a member of this subcommittee for years. I think it is in good hands now with the chairman. I don't have to be here all the time now, but I would like to be. His chairmanship is a great step forward in Mississippi life.

I am here today to say a few words for just a small amount of money for the Cooperative Research program through which money is distributed, just a little bit here and there, throughout the Nation. And I don't believe there is a small program anywhere, gentlemen, whether educational institutions or not, that has been more eagerly received and more gratefully appreciated and done more good per dollar than this forestry research.

I am going to be one of those trying to save dollars too, but I hope we can find room to keep this program at its normal level, just a very few million dollars.

One illustration of the popularity of this program is that the great Duke University, maybe the highest endowment in the Nation, years ago after this program started was very anxious to get included, and has since been included.

Senator COCHRAN. We appreciate so much your being here and your comments at the beginning of our hearings this year. You have rendered, as everybody knows, such valuable leadership to this subcommittee and the full committee as well, and we appreciate your continued interest and assistance.

PREPARED STATEMENT

Senator STENNIS. Thank you.

If I may put this short statement I have, Mr. Chairman, in the record, and if you will excuse me, I have another commitment.

Senator COCHRAN. Without objection, it will be included at this point in the record.

[The statement follows:]

PREPARED STATEMENT OF HON. JOHN C. STENNIS

U.S. SENATOR FROM MISSISSIPPI

The forests of this country have been, and continue to be one of our greatest resources. The sum of the values added attributed to timber in all kinds of timber-based economic activities amount to about four percent of the nation's gross national product. Employment in all timber-based economic activities amounts to about four percent of the total civilian employment of the United States. Internal Revenue Service figures for 1976 show that the timber-based industries contributed over $2 billion in taxes to the United States Treasury. These are federal taxes only, and exclude taxes paid by secondary and tertiary manufacturers. It is obvious that our forests are important to the economy of our nation.

Our daily lives are filled with commodities which are made completely, or in part, from wood or chemicals derived from wood. These commodities include paper products, soap, chewing gum, photo film, shoe polish, vanilla extract, perfume, floor wax, drugs, plastics, phonograph records, inks, shirts, candy, and insulation. These are just a few of the hundreds of items for which we depend on our forests. They do not include the more obvious items like furniture and lumber for building. Some trees grow so large that they can supply enough wood to build a community of 50 six-room houses.

In this time when energy is such a vital issue, we must also consider wood as a fuel. At least one-half of all the timber cut in the world still fills its original role for humans--as a fuel for cooking and warmth. Ninety percent of the people in most underdeveloped countries today depend on firewood as their chief source of fuel. The United States currently supplies about two percent of its energy needs with wood. Projections are that this can be increased to eight percent by 1990, through improved management practices and application

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of new technology. On June 30, 1980, the President signed a law which will aid researchers in finding more energy uses for our forest products and wastes.

Trees are also important to our natural environment. The tree is a machine that runs entirely by solar energy to take carbon dioxide from the atmosphere and turn it into life-supporting oxygen.

In addition to their magnificent beauty, the forests of America provide our citizens with a great outlet for recreation. This outdoor recreation occurs in forests ranging from the primitive, untouched areas to the well-managed, highly developed areas of parks and campgrounds. Nearly all of the nation's forest lands are capable of supporting some type of outdoor recreation activity. However, only a small proportion of it is being intensively managed for recreational purposes. Private forest lands represent a substantial base for outdoor recreation such as hunting, fishing, hiking, picnicking, horseback riding, and off-road vehicle use.

While the United States Forest Service, state forestry services such as the Mississippi State Forestry Commission, and other State forestry organizations have done much to protect our forest system, the future demands that we increase forest research and protective management of our forests.

We must address the problems of how to control forest fires, disease, and insects such as the Southern pine beetle which are ravaging our pine forests of the South. Through research and the application of new technology we can more efficiently use our timber lands. However, this research and application of new technology will require a good deal of funding.

One of the most effective research programs, which the Federal government has had some hand in funding is the Cooperative Research Se[illegible]. Under this program research in forestry-related endeavors is conducted at 60 State universities and

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land-grant colleges throughout the nation. This program is carried out by graduate students, working under professionally qualified supervision. It is financed on a cost sharing basis, part by Federal funds and half or more from State or private industry funding. Through the enthusiastic support of the universities, industry, and the Department of Agriculture, which administers the program, the results have been highly successful.

Until this time, under the matching provisions of this program, for each Federal dollar spent two more have been spent by non-federal sources. This is, in my opinion, a very cost-effective way, from the viewpoint of the Federal government, to get this valuable research done.

I would urge this subcommittee to take the value of this fine program into full account before accepting a level of funding that is below last year's amount.

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STATEMENT OF SENATOR PROXMIRE

Senator **Cochran**. Senator Proxmire.

Senator **Proxmire**. Mr. Chairman, first I want to congratulate you on your excellent opening statement. I couldn't agree more that we are in a very difficult time now especially with this economy. As we know, we have to conserve the funds that we have. We have to hold down spending in every way we possibly can. At the same time, as you say, 22 million people are involved in agriculture in one way or another. It is an enormously efficient sector of our economy, undoubtedly, the most efficient. By far the great advantage we have over the Soviet Union, for example, is in agriculture with our great productivity, and this is something that, I think, we have to do our very best to foster and encourage.

I would just like to spend a couple minutes here on a project related to what Senator Stennis also spoke about.

DAIRY FORAGE RESEARCH CENTER

I am here today to recommend that the subcommittee approve a total of $3 million in fiscal year 1983 funding for the U.S. Dairy Forage Research Center in Madison, Wis., and the associated cluster locations in other States.

The President's budget asks for fiscal year 1983 funding of $2.318 million for this activity. This is an increase of $200,000 over the fiscal year 1982 appropriation. But for reasons which I shall outline in my remarks, I am asking the subcommittee to recommend that the funding level for fiscal year 1983 be set at a total of $3 million.

I am asking, in other words, for an increase of $882,000 for fiscal year 1983 rather than the $200,000 increase included in the President's fiscal year 1983 budget. When we talk about billions and hundreds of billions of dollars, this increase from $200,000 to $882,000 obviously is very, very small, microscopic, almost invisible.

But, Mr. Chairman, I am not requesting an add-on to the President's budget. It is not an add-on. It would not increase the budget. I am asking that the increase up to $3 million for the Dairy Forage Research Center in fiscal year 1983 be funded entirely out of fiscal year 1983 increases already requested by the President for the Agricultural Research Service.

In considering my request, the subcommittee will, I hope, keep in mind that, under the original plan that was conceived in 1977, fiscal year 1982 funding for the center was to have been $5 million, as opposed to the actual fiscal year 1982 appropriation of $2.118 million, and for fiscal year 1983 it was also to have been $5 million, as opposed to the $2.318 million recommended in the President's budget and the $3 million I am urging the subcommittee to adopt. So, I am urging a funding that is $2 million below the $5 million that was originally expected to be made available for this research in 1983.

FAMILY DAIRY FARM SURVIVAL

I make this request for increased funding for the center because of the urgent need for new technology to insure the economic survival of the family dairy farm.

Dairy farmers are facing constantly escalating production costs while milk prices fall short of keeping up with inflation. One of the most effective ways to hold down production costs is through the application of new technology that increases production efficiency.

This cost/price squeeze will intensify as support price policies for dairy products are modified. The only way the family dairy farm will remain an economically viable enterprise in such a situation is if research support is targeted toward reduced costs of producing milk and not increased levels of production.

Last year, the Federal Government acquired 10 percent of all milk produced in this country, and this year it looks like it could be even worse. So we have to hold down production. We have to hold down cost in order for dairy farmers to be able to survive under those circumstances.

A recent study of 24 dairy farms by the University of Minnesota found that farm earnings increased as the amount of alfalfa, an important forage, was increased in their feeding operations.

Increased use of forages in dairy operations will significantly reduce the cost of producing milk and thereby improve the competitive posture of family dairy farmers not only in domestic markets but also in world or export markets.

We should not use the current dairy surpluses as a reason for not supporting research to reduce the costs of producing milk. I think we ought to keep it. The dairy farmer can continue his operation if either profit per unit of production—100 pounds of milk—is increased or if the profit per unit of production remains the same but more units are produced. Clearly, the intent of this research is to increase profit per unit of production through lower feed costs and not to increase production levels.

Research is a long-term investment. An example of this long-term payoff is public funding of soybean production research. Someone had to have the foresight to commit funds in the 1930's for soybean research even though, at that time, soybeans were an insignificant crop.

If those research programs had not developed new varieties and production systems, our farmers could not be growing soybeans competitively today. And unless we are willing to commit research funds in support of the family dairy farm at this time, we face the very real possibility that such enterprises will be forced out of business.

Milk and dairy products are too important a portion of our diets for us to allow the demise of such a major segment of our agricultural economy.

FUNDING FOR DAIRY FORAGE CENTER

Mr. Chairman, present levels of funding provide for only one-fourth the projected program at Madison and one-third the projected program at the cluster locations in Ithaca, N.Y.; University Park, Pa.; Wooster, Ohio; East Lansing, Mich.; St. Paul, Minn.; Ames, Iowa; and Columbia, Mo.

Without the increase that I am requesting, the programs at Madison and the cluster locations would function at very low and inefficient levels.

As I have noted earlier, the full funding level for these programs was projected in 1977 at $5 million. This $5 million level was originally targeted for fiscal year 1982. Again, Mr. Chairman, the amount actually appropriated in fiscal year 1982 was only $2.118 million. And the $3 million I am recommending for fiscal year 1983 would only permit about one-half the program originally proposed.

I should point out, Mr. Chairman, that approximately 40 percent of the funds are used for support of programs at the cluster locations and 60 percent are used for support of the program at Madison, Wis.

Virtually any method used for assessing the benefits or returns on the public investment in the U.S. Dairy Forage Research Center shows a minimum return—and I checked this several ways because it is unbelievable—but it is a minimum return of $100 for every $1 appropriated; $100 for every $1 appropriated. That is about the best cost/benefit I have seen anywhere, public or private.

For example, each ton of alfalfa hay has the potential of producing 3,000 to 4,000 pounds of milk. Because present methods of harvesting and storing this feed material result in excessive losses of feed value, only 1,000 pounds of milk are produced from 1 ton of alfalfa hay.

But if new technology were developed that would reduce such harvest losses to levels allowing the production of 2,000 pounds of milk per ton, the savings to the dairy farmer in reduced feed costs would be well over $10 billion per year—this is based on 87 million tons of alfalfa hay produced in the United States annually and considering milk at $12 per hundredweight. Few, if any, agricultural research programs provide similar cost/benefit ratios. Development of this technology alone might offset the impact of any dairy price support program changes.

BENEFITS TO AGRICULTURE FROM TECHNOLOGICAL ADVANCES

All agricultural technological advances have, under market competition, resulted in a sharing of the benefits between farmers and consumers. The benefits I have enumerated will, therefore, be equally important to both consumers and producers of dairy products. Milk and dairy products comprise one out of every four pounds of food we eat. Consumers can no more afford to face escalating food costs than a dairy farmer can face increases in production costs.

In considering increased funding for the U.S. Dairy Forage Research Center, we should not overlook the contribution that increased use of forages can make toward the solution of one of our most serious and pervasive environmental problems—soil erosion. Providing farmers an alternative and economically rewarding use of land through forage-livestock production is a very logical and effective way to reduce soil erosion to acceptable levels.

Forage grasses and legumes are an effective way to ensure against excessive soil losses on sloping land areas. New technology is needed so that soil conserving forage-based farming systems are at least as profitable as row crop systems of farming.

Mr. Chairman, let me again point out that providing $3 million in fiscal 1983 for the U.S. Dairy Forage Research Center would not require increasing the President's fiscal 1983 budget for the Agricultural Research Service.

Rather, the subcommittee can simply identify $882,000 of the $42,870,000 ARS increase in the President's budget for fiscal 1983 as going to the U.S. Dairy Forage Research Center.

One suggestion I can offer is that the increased funding for the Center in fiscal 1983 be identified as a portion of the $9,600,000 increase in fiscal 1983 funding in the President's budget for expanded basic agricultural research.

Inasmuch as the U.S. Dairy Forage Research Center provides a unique opportunity to conduct research on the total dairy-forage production system, support for the Center's programs should logically come from both the animal and plant science areas.

This is the case for research conducted at a number of locations where the Agricultural Research Service has programs, such as the Roman L. Hruska U.S. Meat Animal Research Center in Clay Center, Nebr.; the Livestock and Range Research Station in Miles City, Mont.; and the Southwestern Livestock and Forage Research Station in El Reno, Okla., to name a few.

FUNDING FOR ADMINISTRATIVE AND OVERHEAD COSTS

I have one final comment, Mr. Chairman, and this relates to the amount of funds retained to offset administrative or overhead costs. Nominally, 14 percent of the amount appropriated is retained at the administrative level of the Agricultural Research Service. Therefore, of the $42,870,000 funding increase in fiscal year 1983 for the Agricultural Research Service in the President's budget, approximately $6 million may be retained by the administrator of ARS for management or administrative costs. This sum would fund almost 50 scientists, based on $125,000 support for each scientist.

There appears to me to be no justification for such a fund retention level, because it should not cost any more to manage the fiscal year 1983 program than the fiscal year 1982 program in terms of personnel or funds. The retention at the administrator's level of 14 percent only fosters an expanding bureaucracy that impedes rather than facilitates the efforts of research scientists.

If all of the $42,870,000 funding increase in the President's fiscal year 1983 budget for the Agricultural Research Service were made available to scientists performing research, then the increased fiscal 1983 funding I am recommending for the U.S. Dairy Forage Research Center could easily be allocated from within the President's fiscal year 1983 budget increase for the ARS.

Mr. Chairman, I have some questions for Dr. Kinney which I would appreciate if he could answer for the record. I want to thank you very much for permitting me to impose on you and the other witnesses with this much time.

PROBLEMS OF PRODUCTIVITY

Senator COCHRAN. Of course, those questions can be submitted to Dr. Kinney. We appreciate your being here this morning, Senator Proxmire, and the observations you made about the dairy forage research effort and the problems of the dairy industry generally.

It is really interesting to observe so many major countries in the world battling the problems of productivity in the agricultural sector—not being able to produce enough for their own consumption, having to import great quantities of dairy products and other commodities from around the world, and in many areas of the world people not getting enough to eat. Here in this country, we are so productive that it turns out to be almost an enemy of the farmer. Overproduction is putting such tremendous pressure on market prices.

Senator **Proxmire**. It is almost a curse.

Senator **Cochran**. I think your challenge to the scientific community to develop target technology in reducing costs of production is very interesting and timely.

Senator **Proxmire**. Thank you very much.

Senator **Cochran**. We appreciate very much your being here and the contribution you make to the effort of this committee as the senior ranking Democrat. We appreciate it very much.

[Clerk's note.—Senator Proxmire's questions and the Department's responses appear on pages 123–125.]

INTRODUCTION OF STAFF MEMBERS

Senator **Cochran**. Before we introduce the panel and take testimony this morning, I want to introduce the members of the staff of our subcommittee.

Bill LaForge, who is seated at my right, is the chief counsel to the subcommittee. He came to the subcommittee last year and worked with Stephen Kohashi during our hearings and the development of our bill, and this year he is serving in the capacity of chief counsel, and doing so very capably. He is a Mississippian and brings quite a bit of experience and background from the House of Representatives staff side of things. He has worked in the administration. We are very fortunate, indeed, to have the benefit of his counsel and assistance in our subcommittee.

Irma Hanneman, who has been on the subcommittee for several years, is with us again this year. We really do appreciate the fine work she does.

Koni Gleason is a new member of our subcommittee staff this year.

And, of course, Ken Auer, who has provided a great amount of assistance in our work in the subcommittee for the last few years, is chief counsel for the minority.

I don't think any subcommittee on the Appropriations Committee has a more qualified and capable staff than this subcommittee. As chairman, I really do appreciate the great work that they do.

DESCRIPTION OF RESEARCH AND EDUCATION FUNCTIONS

This morning our hearing concerns the research, extension, and education functions of the Department of Agriculture.

In 1981, the Department of Agriculture reorganized the former Science and Education Administration into four separate agency level units—Agricultural Research Service; Cooperative State Research Service; Extension Service, each headed by an administrator; and the National Agricultural Library, headed by a director.

All of these functions will now be under a new assistant secretary position created under title XIV of the Agriculture and Food Act of 1981.

Research and education play vital roles in insuring the strength of American agriculture. The agencies before us today help develop the technologies that are increasingly needed by American agriculture to keep pace with growing domestic and world demands for food and fiber.

The productive efforts of U.S. Government and Federal-State cooperative research and extension programs are activities that have historically enjoyed the support of this subcommittee.

The subcommittee is especially pleased that the overall administration request, which the Department is here to discuss today, represents a $54 million increase over the fiscal year 1982 levels.

INTRODUCTION OF PANEL WITNESSES

I am pleased to welcome to our subcommittee Dr. Anson R. Bertrand, Director of Science and Education for the Department of Agriculture, who is accompanied by Dr. Terry B. Kinney, Administrator, Agricultural Research Service; Dr. Walter I. Thomas, Administrator of the Cooperative State Research Service; Dr. Mary Nell Greenwood, Administrator of the Extension Service; Dr. Richard A. Farley, Director of the National Agricultural Library; Mr. John Victor, Chief of the Budget Division, Science and Education; Bob Sherman, Deputy Budget Officer of the Department; and their program associates who will be introduced at the appropriate time.

Welcome, ladies and gentlemen, to our subcommittee.

Dr. Bertrand, we have your prepared statement and those of your colleagues, along with your biographies, which we appreciate your submitting to the subcommittee. They will be made a part of the record at this point.

[The statements and biographies follow:]

PREPARED STATEMENT OF DR. ANSON R. BERTRAND

DIRECTOR, SCIENCE AND EDUCATION

Mr. Chairman, I appreciate the opportunity to appear before the Committee on behalf of the Department's Science and Education agencies. I have with me today the administrators of the Agricultural Research Service, Terry Kinney; Cooperative State Research Service, Walter Thomas; Extension Service, Mary Nell Greenwood; and Richard Farley, Director of the National Agricultural Library. They will follow me in making formal presentations about their respective agency proposals. Also with us is John Victor, Budget Officer for the Science and Education agencies. Seated at the back are some of our program directors and specialists who can respond to the questions the Committee may have about our FY 1983 Budget proposals or about any of our current program.

Initially, I want to express my sincere appreciation for the guidance and support this Committee provided to the science and education programs of the Department. We will definitely need the continuing support of this Committee to assure a viable and responsive agricultural science and education system in this country.

Mr. Chairman, as we move into the 1980's there are, as I am sure you are aware some very formidable issues facing this Country's food and agriculture system. Agricultural productivity must be emphasized not only to meet domestic requirements but also to greatly expand agricultural exports as a primary means of offsetting existing foreign trade imbalances and to help feed and clothe the expanding world population. Most increases in food, fiber, and timber production must therefore come from a more efficient productive capacity. There is little new prime land to cultivate, no major untapped water supply, and limited technology reserves. In summary, greater and more rapid advances in efficiency and productive capacity will depend largely on a continuing supply and application of new knowledge and technology.

Challenges to the Food and Agriculture System

There are challenges facing the food and agriculture system. They are in themselves dominated by conditions of concern about the total U.S. economy---inflation, declining productivity growth, and the imbalance of foreign trade:

- Farm Productivity has declined from a growth rate of 1.9% annually in the 1950's and 1960's to 1.3% during the past decade. This growth rate for the 1980's clearly is inadequate.
- Demand for food and agricultural products during the 1980's could grow 2.5 to 2.7% annually and, if so, will exceed the rate of productivity growth during the past decade by over 100%.
- Agri-business Productivity growth rates also have been declining, thereby raising the costs of inputs to the farm sector and lowering farm income.
- A continued strong contribution to trade balance by agriculture to help offset the cost of imports is well documented.
- Need for additional knowledge and technology by action/regulatory agencies to reduce the cost of monitoring, setting standards, responding to new concerns.
- Production and Marketing costs have increased dramatically in recent years. Productivity increases in food and agriculture will reduce costs and increase farm incomes on the shortrun and help lower prices to consumers in the long run.
- Weather patterns were unusually favorable and uniform from 1950 to 1974, but appear to have returned to normal variability as illustrated by the $18 billion crop loss of 1980.

- A host of natural resource constraints:
  1) continuing loss of agricultural lands to other uses with limited opportunities to develop new lands,
  2) declining groundwater supplies and increasing competition for water,
  3) continuing soil erosion and loss of inherent productivity,
  4) increasing costs of energy supplies and fertilizers,
  5) continuing low productivity of much of the Nation's forests and rangelands, and
  6) continuing degradation of water quality by sediments, salinity, acid precipitation, and agrichemicals.

Capacity of the Science and Education System

The Department's science and education system has demonstrated its capacity to address complex problems. This system responds directly to changing problems facing producers, marketing firms and consumers, and other users at local, county, state, regional, and national levels. In fact, major redirections were made in the past decade to address new problems and priorities. Numerous quick responses were made and have been documented to address unforeseen emergencies such as the Mt. St. Helens eruptions. This system will continue to adjust to the conditions of the 1980's. Some opportunities for future contributions, with emphasis on increasing productivity include:

- Mission-oriented programs insuring high returns on public investments in basic and applied research and extension, generally 30 to 50% annually.

- The Federal-State-County partnership with a network of facilities and trained people providing the ability to address problems associated with the diverse combinations of crops, soils, and climates across the Nation.

- Responsiveness of the system documented by many redirections and adjustments during the 1970's and rapid solution of problems such as the southern corn leaf blight.

- A positive quantitative relationship between public investments in research and extension and agricultural productivity. Many feel the high rates of return for public agricultural research and extension investments are an indication of underinvestment and this underinvestment may explain the decline in productivity growth.

- Countless examples of progress in basic and applied research and extension programs showing conclusively that opportunities still exist and benefits can be captured such as: irrigation scheduling in Nebraska last year saved an estimated $36 million in energy costs, $12 million in nitrogen fertilizer, and 7 inches of water from declining groundwater reserves; dramatic recent breakthroughs in genetic engineering research incuding a new vaccine for foot-and-mouth disease; a new cold-resistant hybrid citrus; and genetic material transfer from one crop to another.

- Great areas of opportunity exist in fundamental research which can accelerate the spin-off of new knowledge to feed the applied R&D and educational capacity of this system.

Constraints in the System

There are however limitations in the contributions science and education can make to food and agriculture productivity at this time. For example:

- Inflation and additional increases in the cost of carrying out research and education programs continues.

- Critical shortages of trained specialists exist, notably in engineering, integrated pest management, computer sciences, energy, human nutrition, and some of the discipines of the basic biological sciences.

- The priority pendulum swung in the 1970's from traditional production and marketing problems to "defensive" research and education, and time is needed to readjust this direction efficiently.

- The problems remaining are complex and will be costly to resolve. For example, multidisciplinary approaches to problem solving in such areas as crop and animal management systems are needed for further advances.

- A large research and education commitment is required just to keep pace with the constant battles that must be waged to hold losses caused by plant and animal disease, pests, and weeds at acceptable levels.

The Science and Education FY 1983 Budget

The budget proposed for Science and Education agencies in FY 1983 total $1.02 billion, nearly 5% more than the FY 1982 appropriation of $.98 billion. This budget has been built upon the National resolve to reduce inflation and to induce economic growth for the country. I believe that within the overall environment of fiscal austerity, the Administration had established a significant and forthright position on the essential role of science and education. I also believe that this budget reaffirms the vital need for science and education in supporting the Secretary's objectives to increase agricultural productivity; to continue high levels of exports; and to sustain the capacity of our natural resources for future generations. Our proposed FY 1983 Budget is essentially at the same level as last year with slight growth in selected areas. All major programs are funded at or above 1982 levels, which is an indication of this Administration's strong support for research and extension at a time when funding for many domestic programs is being substantially reduced. I believe that this budget will adequately support a viable science and education program capable of maintaining excellence in agricultural productivity for the U.S. in FY 1983, as well as in preserving solid bases for important work to continue in the years ahead.

The Science and Education budget of $1,021,578,000 in FY 1983 consists of the following agency proposals:

o Agricultural Research Service	$468,548,000
o Cooperative State Research Service	232,103,000
o Extension Service	311,911,000
o National Agricultural Library	9,016,000

This concludes my statement Mr. Chairman. I could either respond to your questions now or ask Dr. Kinney to explain the proposed budget for the Agricultural Research Service.

BIOGRAPHICAL SKETCH

Anson R. Bertrand was appointed Director of Science and Education for the U.S. Department of Agriculture on July 20, 1979.

In this position, equivalent to Assistant Secretary, Dr. Bertrand is a General Officer of the Department and serves as policy advisor to the Secretary of Agriculture and member of the Department's Program and Budget Review Board. He has the responsibility for evaluating and directing the Department's role as the lead agency of the United States Government in the food and agricultural sciences.

Dr. Bertrand also serves as head of the Science and Education Administration of the Department, a position he assumed in July 1978. The Science and Education Administration combines under Dr. Bertrand's direction the Department's major resources for agricultural research, human nutrition research, extension, higher education, and technical information systems, including the National Agricultural Library. Through this agency, Dr. Bertrand is also the administrator in charge of a relatively new competitive research grants program as well as long-established cooperative relationships between the Department and the land grant universities; the 1890 institutions; and others active in research, extension and teaching.

Dr. Bertrand came to the Department following a career in research, teaching, and university and Federal administration. He served as dean of the College of Agricultural Sciences, Texas Tech University, Lubbock, Texas from 1971 to 1978. He was chairman of the Agronomy Division, College of Agriculture, University of Georgia, Athens, from 1967-1971. Earlier, he was director of the Southern Piedmont Soil and Water Conservation Center, USDA, Watkinsville, Georgia, and then chief of the Southern Branch of the Soil and Water Conservation Research Division of the Agricultural Research Service, USDA. He served for 12 years, teaching and conducting research, on the faculty of the Agronomy Department at Purdue University, West Lafayette, Indiana.

Dr. Bertrand received his B.S. in agricultural education from Texas A&M University, College Station; his M.S. in agronomy from the University of Illinois, Urbana; and his Ph.D. in soil physics from Purdue University.

He is the author of numerous publications.

Dr. Bertrand is a member of Phi Kappa Phi, Gamma Sigma Delta, Sigma Xi, and Alpha Zeta honor societies. He is a past president of the Soil Science Society of America. He has served on study panels and committees for the National Research Council, National Academy of Sciences. From 1976 until July 1978 he was a member of the Board of International Food and Agricultural Development of the U.S. Department of State. He has been a consultant to the Food and Agricultural Organization and the Indian Government, and has had field experience in Bangladesh, Niger, India, and Mexico.

Dr. Bertrand was born in Gatesville, Texas. He and his wife Gloria have a daughter, Cynthia, and a son, Leslie.

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PREPARED STATEMENT OF TERRY B. KINNEY

ADMINISTRATOR, AGRICULTURAL RESEARCH CENTER

Mr. Chairman and Members of the Committee, it is a pleasure to appear before you to present and discuss the 1983 Budget proposed for the Agricultural Research Service. Let me first introduce the other witnesses seated at the table: Dr. Mary Carter, Associate Administrator; Dr. Thomas Army, Deputy Administrator; and John Victor, my Budget Chief.

Last year when we met, I spoke of the issues and challenges confronting this Department and the agricultural research community in the next decade. These included research issues dealing with the needs of both producers and consumers in terms of agricultural productivity; natural resources; exports; and improving the well-being of the American people.
Some of the more pronounced concerns immersed in these issues are:

- Global population growth and the capacity to produce sufficient food
- The diversion of prime croplands to nonfarm use
- The placement of marginal cropland into production
- The increasing costs for essential chemicals, fertilizers, and water necessary to sustain today's high farm productivity
- The continuing depletion of water resources for irrigated agricultural lands which provide the largest share of the world's food
- The diversion of water resources from agricultural use to industrial and urbanized needs

- The erosion and loss of critical top soils which contain the precious nutrients necessary for plant growth

Our research and researchers do not exist in isolation. The socio-economic and geo-political systems about us are dynamic. We believe we must be equally dynamic if our scientists are to contribute to the solution of these increasingly complex problems. Scientific discoveries, such as genetic manipulation, are far reaching and demonstrate that such a dynamic capacity exists.

The 1983 Budget of $468,548,000 for the Agricultural Research Service provides for a 10% increase over 1982 to strengthen ongoing research. More specifically, it proposes increases in basic research in the plant, animal, natural resources, and post harvest biological processes; enhances the national plant germplasm system which is the base for all applied breeding programs, public and private; emphasizes our research to conserve and more effectively utilize this country's land and water resources, reduce soil erosion and continue to improve the efficiency of agricultural water use and water quality; expands animal health and protection and provides for new thrusts in range management and human nutrition research.

This Department has a mandate to provide leadership, oversight and management to assure this Nation of an adequate supply of quality food and fiber. The Agricultural Research Service has the primary responsibility for assuring that national agricultural research and development needs are being met. The budget proposed for ARS in 1983 provides the necessary resources to carry out this essential responsibility. The Administration considers the increase essential in order to overcome a long term trend of no real growth in ARS funding. From 1968 to 1982, ARS funding grew by only 1% in real terms, while the missions assigned to ARS have become increasingly complex and numerous.

In view of the existing economic and budgetary constraints and the intensified competition for available resources, ARS is genuinely appreciative of the priority placed on research in this budget. We also recognize the implied responsibilities of conducting an efficient and responsive research program. In this regard, ARS is continuing to focus its research within a stated mission that is:

- National in perspective
- Basic in nature
- Long-range or of high risk
- Uniquely a Federal responsibility; that is,
  - Research in support of Federal action agencies
  - International research and coordination
  - Research responding to emergency situations
  - Research in support of the development and maintenance of national plant germplasm collections
  - Research that can best be done utilizing USDA expertise and facilities

In times past, we may have had the luxury of a more permissive science program. Our present mission dictates a more deliberate agenda. Critical to this research commitment is the continuation and strengthening of our research management to meet new and changing needs within the full spectrum of the food and agriculture program.

Our research is being directed to the forefront of major research problem areas in both the short and long term, utilizing the framework of a strong program management; the channeling of significant program and resource recommendations through the Federal Budget System; and the development and implementation of comprehensive long-range planning. Through the fusion of strategic plans, management and budget, we can survive in this dynamic environment and I am confident we can deliver the scientific breakthroughs that will be required.

As this Committee is aware, the history in ARS is long and it has an outstanding list of contributions to the food and agriculture complex. More recently, for example, this Agency has developed:

- A safer and more effective vaccine for foot-and-mouth disease through genetic engineering research which will mean annual savings of billions of dollars for those countries that have this disease and will reduce the risk of entry of the disease into the United States.

- A technology to eliminate reproduction of the boll weevil in a geographically defined area. The combined use of diapause control, pheromone traps, sterile males and an insect growth regulator in a coordinated manner in a trial program resulted in the elimination of the boll weevil. The elimination of the boll weevil, combined with improved control of the bollworm and tobacco budworm, resulted in a reduction of 70 percent in farmer costs for insect control on 40,000 acres of cotton. Based on this trial and other areawide efforts the National Academy of Sciences Committee on Cotton Insect Management concluded that areawide boll weevil management was preferred to the "each-grower-do-his-own-thing" approach.

- A new formulation of virus to help control the Gypsy Moth that is 10 times as potent as the previous formulation and is protected from the sun's ultraviolet rays.

- A technology for several new types of sprayers which greatly increase the precision and control of pesticide usage. These new sprayers meter pesticide concentrate into the pipes carrying this water diluent immediately ahead of the spray nozzles at a rate proportional to the travel speed. This eliminates variations in application rate due to speed changes. Because the sprayer handles the concentrate and diluent separately, leftover tank mix is eliminated. This further avoids the problem of disposing of leftover mix.

There are many more examples, some of which are included in this year's Explanatory Notes. Although I believe these accomplishments to be worthy credentials and representative of our research, they represent the past achievements and we must look ahead. Research is the hope for the future and now is the time to target and address emerging problems. We must not lose the opportunity.

In closing, Mr. Chairman, we want to express our sincere appreciation for the understanding and support given by you and this Committee. I will be pleased to respond to questions.

BIOGRAPHICAL SKETCHES

Mary E. Carter

Mary E. Carter was born in 1925 in Americus, Georgia. She received her B.A. degree from LaGrange College in Georgia in 1946, her M.S. from the University of Florida in 1949 and her Ph.D. from the University of Edinburgh, Scotland, in 1956.

She was the first American woman to receive a Ph.D. in Chemistry from the University of Edinburgh, supported by a Rockefeller Grant from the United States, and the Alex Cowan & Sons Ltd. Grant from Scotland. From 1946 to 1947 she was an instructor at LaGrange College; a microscopist at Calloway Mills from 1947 to 1948; a textile chemist at the Southern Research Institute from 1949 to 1951; a chemist at West Point-Pepperell Manufacturing Co. from 1951 to 1953; a research chemist at American Viscose Corporation from 1956 to 1962; a research associate at FMC Corporation, American Viscose Division from 1962 to 1971.

In 1971 she joined USDA as the Director of the Textiles and Clothing Laboratory, Knoxville, Tennessee and served there until 1973. In 1973 she became the Director of the USDA Southern Regional Research Center. In October 1980 she was appointed Associate Administrator of Science and Education Administration, Agricultural Research, now Science and Education, Agricultural Research Service, in Washington, D.C.

Thomas J. Army

Tom Army received his B.S. and M.S. degrees in Agronomy and Botany, at the University of Massachusetts, and a Ph.D. in Agronomy at North Carolina State University. As a Federal researcher Dr. Army gained worldwide recognition in the field of dryland agriculture and interrelationship of weather and crop production. Recently his work has been related to direction and management of research related to production of food and fiber, manufacturing of agricultural chemicals, and food processing in the Food and Agricultural Chemical Industry. His assignments took him to several foreign countries including Japan, Sudan, Thailand, Iran, Eastern Europe, and the Carribbean. Dr. Army came to the National Program Staff as Deputy Administrator in September 1980.

Tom Army is past president of the Agricultural Research Institute, a Fellow in the American Society of Agronomy, and a Fellow of the Soil Science Society of America and the American Association for Advancement of Science.

PREPARED STATEMENT OF DR. W. I. THOMAS

ADMINISTRATOR, COOPERATIVE STATE RESEARCH SERVICE

Mr. Chairman and Members of the Committee:

I welcome this opportunity to appear before you and discuss the proposed budget for FY 1983. This budget is in support of the research programs of the USDA Federal-State research partnership described in the Agriculture and Food Act of 1981. This unique partnership arrangement exists in food and agricultural research between the Federal Government and the governments of the several States whereby the States have accepted and have supported research programs through appropriations and legislation dating back to the First Morrill Act of 1862, the Hatch Act of 1887 and the Second Morrill Act of 1890. This partnership has played a major role in the outstanding successes achieved in meeting the varied, dispersed, and in many cases, site-specific needs of American agriculture. This partnership must be preserved and enhanced.

Approximately 60 percent of the food and agricultural research performed in the public sector is performed within the State agricultural experiment stations. About 3 percent is performed by other cooperating institutions. Most of the rest is performed by USDA in-house agencies including the Agricultural Research Service, the Forest Service, and the Economic Research Service.

It is doubtful that additional demands on the food and agriculture sector can be met as readily as before. Current land and water resources cannot continue to meet increasing demands over the long run without accelerated rate of increased yield, increased soil and water conservation, and other kinds of scientific and technological advances.

Water may be the single most limiting resource in future crop production. Water problems are nationwide, transcending State and even national boundaries but nowhere are the problems more critical than in the semiarid west. Research programs are necessary to find ways of using the limited water resources more efficiently to produce agricultural products and to do so with improvements in water quality rather than further degradation.

Regulations to abate pollution, reduce environmental degradation and/or alleviate potential human health hazards have also reduced agricultural productivity and productive capacity. The greatest impacts to date have arisen from restrictions on pesticide development and use. New and improved systems of plant and animal protection are needed.

Recently, prices of farm inputs, especially interest rates, have increased faster than those of farm products. Many farmers are stressed. Some have been forced out of business and more will be in the near future if they have to bear costs that do not lead to corresponding or greater returns.

The budget request for Cooperative State Research Service for Fiscal Year 1983 is $232,103,000. This represents an increase of $10,887,000 over funds available for Fiscal Year 1982.

In brief, the major changes requested for Cooperative State Research Service are:

1. Increases for the Hatch and 1890 Institutions funds to provide for increased operating costs;

2. A program decrease for Cooperative Forestry Research;

3. Elimination of funding for the Animal Health and Disease Research formula program under Section 1433, P.L. 95-113;

4. An increase of the Competitive Research Grants funding for basic research in plant science; and

5. A net decrease for Federal Administration (direct appropriation) for reduced Federal Administration and staffing.

In a period of severe fiscal constraints in Government spending, the major emphasis of our budget request is to meet the increasing costs of maintaining essential elements of the continuing program. Within this level of resources it is essential to direct resources to the highest priority areas.

HATCH ACT

The Hatch research program is the keystone of the Federal-State research partnership. This program brings together Federal, State, and other sources of funding to the State agricultural experiment stations as well as research planning and coordination which results in concerted broad based research thrusts on agriculture's highest priority researchable problems.

Our budget request for the Hatch research program is $144,495,000. Of this $139,934,041 is for payment to States, $4,084,959 for Federal administration, and $476,000 for penalty mail costs. This is an increase of $3,386,000 over the FY 1982 Appropriation Act to provide for increased operating costs. This increase in funding will provide for a portion of the increased operating costs in the State agricultural experiment stations commensurate with the Federal share of total research funding. This will assist the State agricultural experiment stations to maintain strong base programs across a broad spectrum of high priority research areas.

COOPERATIVE FORESTRY RESEARCH

The budget request for the McIntire-Stennis Cooperative Forestry Research program is $10,807,000. This is a decrease of $1,224,000 from the FY 1982 Appropriation Act. Due to the need for constraints in Federal funding for Fiscal Year 1983, it is necessary to reduce the level of funding in support of many of the high priority research programs of the States being supported in part with Federal funds. While the importance of forestry research is recognized at the national level, it is necessary, under the budget constraints to maintain support for this program at a reduced level.

This change will reduce the Federal portion of this program by approximately 10 percent. Amounts allotted to the States on a formula basis permit the State institutions to fund research in those areas they identify as highest priority and maintain strong programs in those selected areas.

1890 INSTITUTIONS RESEARCH

We are requesting a funding level for the 1890 Colleges and Tuskegee Institute research program of $21,674,000 for FY 1983. This is an increase of $182,000 over the FY 1982 Appropriation Act to provide for increased operating costs. This increase in funding will provide for a portion of the increased operating costs at the Colleges of 1890 and Tuskegee Institute commensurate with the Federal share of total research funding. This will assist these institutions to maintain strong base programs across a broad spectrum of high priority research areas.

1890 RESEARCH FACILITIES

We are requesting funding of $8,800,000 to initiate a facilities construction program for the Colleges of 1890 and Tuskegee Institute. Existing facilities utilized for research at these institutions need to be renovated and improved to provide the conditions necessary to conduct top quality research. In addition, new facilities need to be constructed since either the existing ones are not adequate for the conduct of highly complex research, or they do not contain adequate space for the current staff and space needs for their projected research programs. The institutions have had to encroach on the space of resident instruction and other campus programs in order to have the staff and programs authorized under current funding levels.

PUBLIC LAW 89-106 COMPETITIVE RESEARCH GRANTS

The budget request for this program for FY 1983 is $22,880,000. This includes $19,880,000 for research related to plant science and $3,000,000 for research on human nutrition, or an increase of $6,560,000 over the FY 1982 Appropriation Act. The increased funding proposed for FY 1983 will permit an increase of plant science research devoted to genetic mechanisms, biological stress, nitrogen fixation and photosynthesis. Plant science research will be expanded to include the area of plant metabolism as influenced by environmental stresses.

In the area of plant science, peer review groups have judged over half of the proposals received over the four years that grants have been awarded to be worthy of support. However, we were able to fund fewer than a quarter of them. Many excellent opportunities are being lost at the current funding level, which has remained almost constant despite the impact of inflation. This program is strongly supported by this Administration and must achieve an adequate funding level so that these basic research grants can have a more significant impact.

PUBLIC LAW 89-106 SPECIAL RESEARCH GRANTS

The budget request for this program is $21,424,000, a net decrease of $475,000. An increase of $2,980,000 is proposed for tropical and subtropical research. Selected items of research totalling $3,455,000 are proposed for a decrease. This decrease is in line with efforts to meet budget constraints of FY 1983 and to realign the research effort of this grant program at this time. A tropical and subtropical research program has been administered by the Agricultural Research Service. The budget is proposing to shift the extramural portion of this research to Cooperative State Research Service with continued advice from the National, Pacific Basin and Caribbean Basin Advisory Groups.

PUBLIC LAW 95-113 ANIMAL HEALTH AND DISEASE RESEARCH

Support for this formula program is not requested for FY 1983. A funding level of $5,760,000 was available in Fiscal Year 1982. The annual level of appropriated funds has not been adequate, since initiation of this formula program in 1979, to support a viable program across the eligible institutions. Ongoing Federal and State research programs will sustain the overall animal health and disease research efforts in many of the high priority areas.

FEDERAL ADMINISTRATION

The FY 1983 budget provides for a net decrease of $582,000 for Federal Administration (direct appropriation). The coordination, planning and administration of the CSRS program of research is carried out by a staff located in Washington, D.C. As part of the economic recovery program for the country, certain aspects of the roles and functions required of CSRS, as well as the staffing level, are proposed for reduction in scope.

This concludes my statement, Mr. Chairman. We will be pleased to respond to any questions about our programs.

BIOGRAPHICAL SKETCHES

Edward C. Miller
Associate Administrator
Cooperative State Research Service

Born in Riplinger, Wisconsin, Dr. Miller earned his degree in poultry husbandry and biochemistry in 1952, the M.S. degree in biochemistry and poultry husbandry in 1954, and the Ph.D. in biochemistry and poultry husbandry in 1957 at the University of Wisconsin. During 1956-1963 he served as poultry husbandman and as biochemist with the Poultry Research Branch of the Agricultural Research Service at Beltsville, Maryland. In 1963, he joined the Cooperative State Research Service (CSRS) with primary responsibility for nonruminant nutrition and management. From 1967 to 1972 he served as CSRS technical representative to several colleges of 1890. In 1967-1968 he attended the University of Minnesota for a 9-month period to update his knowledge in the areas of nutrition, biochemistry, and statistics. In 1972 he held the position of Director of Program Evaluation and Special Reports, CSRS; in 1974 he held the position of Deputy Administrator for Program Operations, Evaluation, and Analysis; and in 1978 he held the position of Assistant Deputy Director for Animal Science. Since April 1980 to present, Dr. Miller holds the position of Associate Administrator for the Cooperative State Research Service.

Clare I. Harris
Deputy Administrator
Plant Sciences
Cooperative State Research Service

Dr. Harris grew up on a farm in Ontario County, New York. He received a B.S. degree in 1955 from Cornell University and subsequently was Assistant County Agricultural Agent in Madison County, New York, for two years. Following graduate school at Purdue University, he joined the Department in 1962. He conducted research at Beltsville on pesticides for the Agricultural Research Service until 1967 when he joined the Cooperative State Research Service. He has worked with the Cooperative State Research Service as Horticulturist, Director of Plant Science Programs and Deputy Administrator.

John D. Sullivan
Deputy Administrator
Natural Resources and Special Programs
Cooperative State Research Service

Dr. Sullivan was born in Lake Forest, Illinois, and grew up in Milwaukee, Wisconsin. Upon graduation from high school, he enlisted in the army in 1946 and served in the 82nd Airborne Division until discharged in 1948 with the rank of Sergeant. After three semesters at the University of Wisconsin-Milwaukee, he transferred to the University of Idaho to pursue studies in Forestry culminating in a B.S. (Forestry) degree in 1952 and an M.S. (Wood Science) degree in 1954. In 1958, he was awarded the Ph.D. in Wood Science from Michigan State University. From 1956 to 1958, he was an instructor in the Department of Forest Products at Michigan State. Dr. Sullivan accepted an appointment as Assistant Professor in the Graduate School of Forestry at Duke University and was later an Associate Professor at that institution where he taught at the graduate level and conducted research. His publications cover a variety of subjects concerning the physical and chemical characterization of wood. Dr. Sullivan joined CSRS in 1968 as a subject-matter specialist in Forest Science and in 1968 was made Agricultural Administrator in the McIntire-Stennis program. He has been Deputy Administrator since February 1970. Dr. Sullivan is a member of the Society of American Foresters, Forest Products Research Society, Sigma Xi, American Association for the Advancement of Science, and, in 1965 was elected a Fellow of the Institute of Wood Science, London. He was twice elected Secretary-Treasurer and once, Chairman of the Carolinas-Chesapeake region of the Forest Products Research Society, served on the Executive Committee of the American Society of Testing and Materials Subcommittee on Adhesives, and was twice elected to the Academic Council of Duke University.

David W. Krogmann

Dr. David W. Krogmann is serving on an intermittent appointment as Head of the Competitive Research Grants Office, Cooperative State Research Service of the U. S. Department of Agriculture. He came to this Office from Purdue University, West Lafayette, Indiana, where he is a professor in the Biochemistry Department of the School of Agriculture. In 1980 he served full-time for one year as Chief, Competitive Research Grants Office, on an Intergovernmental Personnel Act agreement, and in 1978 he was the first Program Manager for Photosynthesis in the Competitive Research Grants Office and helped to get that office underway.

Dr. Krogmann was born in Washington, D.C., received his AB degree in biology at Catholic University (1953) and his Ph.D at Johns Hopkins University (1958). Dr Krogmann did postdoctoral research at the University of Chicago (1958-1960) and served on the faculty of Wayne State University as an Assistant Professor, Associate Professor, and Professor (1960-1966). In the year 1966-67, Dr. Krogmann was a Program Manager for the Molecular Biology Grants Program of the National Science Foundation. In 1967 Dr. Krogmann joined the faculty of Purdue University. He served one year as the acting chairman of the Biochemistry Department at Purdue and has been a member of grant review panels and advisory committees of the National Science Foundation. His research efforts have been in understanding the process of photosynthesis. Dr Krogmann has published more than fifty research papers in scientific journals and several books.

PREPARED STATEMENT OF MARY NELL GREENWOOD

ADMINISTRATOR, EXTENSION SERVICE

Mr. Chairman and members of the Committee:

I appreciate the opportunity to appear before you to discuss Extension Service's proposed budget for FY 1983. As the educational arm of the U.S. Department of Agriculture and through its partnership with Land Grant colleges and universities, the Extension Service uses a nationwide educational delivery system to extend knowledge into every county in the United States and its territories. This education is offcampus and informal--and recognized internationally as the most successful education system of this type.

We believe that the key to Extension's success is its unique structure as a partnership of Federal, State and local governments with strong guidance in its priorities from those it serves. The basic premise of Extension assistance has been that human progress can be enhanced when the products of research are translated into readily understandable language and made widely available to individuals, along with the assistance needed to develop higher quality decisionmaking for appropriate analysis and application of factual information. Extension staff members live and work among the people they serve and thereby foster close local ties and stimulate and educate people to plan ahead and cope with their problems. The more than one million volunteers, who greatly multiply the impact of the Extension professional staff and help extend Extension's program scope and influence, also represent forceful, locally respected advocates for the Extension system of "helping people to help themselves." Who are the people served? Farmers, ranchers, businessmen, families, homemakers, youth, community leaders, and others who seek Extension assistance.

There are more than 550,000 volunteers who advise and lead 4-H groups and help with individual projects and over 100,000 junior leaders (older 4-H'ers) who assist them. There are over half a million volunteer leaders trained by Extension home economists to arrange and conduct educational programs for local homemakers and families. There are voluntary groups which spearhead efforts for community development projects. There are the many farmers and ranchers who permit their operations to be used for agricultural and management demonstrations and then open them for educational tours. There are many master gardeners and others representing groups--all needing different kinds and amounts of leadership training and support from Extension professionals.

A pervasive but often unrecognized benefit from participation in Extension programs is the development of leadership abilities among clientele. In Extension's close, collaborative working relationship with people at the "grassroots" level in designing educational programs suitable for the targeted audiences, the people are encouraged, prompted, and assisted in every appropriate way to articulate their needs and interests. They are also supported in developing their ability to become constructively critical, mentally stretched to develop an eye for seeing alternative solutions to complex problems, and coached in assessing and accessing the local political-economic-social milieu to effect positive change in their own behalf. Many hestitant, fledgling Extension advisory committee members, volunteer leaders and teachers, 4-H'ers, homemaker club members, and community interest project participants are helped to emerge into fully competent, confident leaders in local government, professional and social organizations--as well as in their chosen career fields.

The Extension Service-USDA/State Cooperative Extension Service partnership has clearly demonstrated the capacity to adjust its programs as the problems of agriculture and rural families and communities change, and to contribute to solving urban problems as well. In making decisions on program priorities, Extension relies on guidance from those who seek and need information. As a voluntary education program Extension can only succeed when it is in consonance with such needs. Extension prides itself on being a piece of the government which never left the people. Since 1914, Extension has been contributing vigorously to maintaining a "self-help society."

Educational programs address National, State, and local concerns consistent with Extension's mission and priorities including: increasing productivity, conserving resources, improving marketing, developing management capabilities, enhancing health and quality of life, and assuring economic security and stability.

Let me provide a few specific examples of successful Extension projects from these major program thrusts:

- Conservation tillage is catching on fast in the U.S. thanks in part to a concerted effort by the Extension Service. In 1980, conservation tillage saved Iowa farmers an average of $1,400 per farm and Nebraska conservation-tillage farmers increased their corn and soybean yields in nonirrigated fields by 25 percent. The Iowa Extension Service found that one series of meetings and tours in the Spencer area, resulted in a savings of 456,000 gallons of fuel. This savings cut production costs by $1.45 million and increased corn and soybean yields. According to the survey, 47 percent of the 300 farmers who responded said they had changed tillage practices as a result of Extension's educational program. The farmers also reported saving fuel, reducing operating costs, and increasing soybean yields. They also left more crop residue on the surface to help prevent soil erosion.

- Last year, Mississippi cotton averaged 618 pounds of lint per acre for a total value of more than $600 million. The Rankin County Extension Service operated a cotton insect control program during the 1981 growing season. They hired one full-time and one part-time pest management scout to check 4,000 acres of cotton for 11 producers. The average cost per acre for insect control for the 1981 season was $25. In 1980, without the scout program, insect control costs averaged $48 per acre.

- Through Extension programs in Kentucky, 8,227 people learned to "live on less." They reported an average $20 monthly "savings" or increased discretionary income, for a total $1.9 million annually available for reallocation.

- In New York, more wood is used for energy than for all other uses combined. In Michigan, the value of wood used for energy is almost equal to the value of corn, which is the leading agricultural crop. In both States, Extension conducts woodlot management workshops emphasizing safe and efficient harvesting of firewood to increase the value of the remaining trees and recognizing that it is false economy to use future crop trees for fuel if they have more value for other uses.

- In Oregon, 20 sheep producers participated in a demonstration with Oregon Extenson Service to show the effectiveness of electric anti-coyote fencing to reduce sheep losses to coyotes and dogs. Prior to the demonstration, losses averaged 22 percent annually. After the fencing was completed, lossess dropped to an average of 0.6 percent. Estimated savings amounted to $7,000 per rancher. The fencing also permitted producers to increase their flock sizes from an average of 160 sheep to 312.

- Nationally, more than 1.3 million youth were enrolled in animal and poultry 4-H projects. Livestock production continues as an important industry in Utah. In 1980, more than 8,000 youth produced nearly $2 million worth of livestock through the Utah 4-H livestock project. Through this program, the youth are gaining an understanding of animal science production technology, exploring potential careers, and learning a lesson in personal responsibility through the care and feeding of their animals. Utah had a 20 percent increase in 4-H livestock projects during 1980.

May I point out that the overwhelming majority of the Federal funds we are requesting assists with the salaries paid to State and County Extension staff--and this is a bargain since every $1.00 in Federal funds directly leads to an additional $1.50 in State and County money.

FY 1983 Budget

The budget we are proposing in FY 1983 is at essentially the same level as appropriated to us in FY 1982, with some minor adjustments. In this budget we will not be asking for funds to start any new programs. In fact, in some areas we will recommend that funding be reduced. Our Smith-Lever formula funds, which undergird the cooperative relationship with our State and local partners will however remain the same. Our EFNEP program, which effectively teaches our Nation's poor and disadvantaged citizens about proper nutrition is also likewise being kept as the same level as last year. I believe that our FY 1983 Budget request provides for the viable continuing operation of a National cooperative extension system.

We recommend a budget of $311,911,000 for the Extension Service in FY 1983. This is $3,791,000 lower than our FY 1982 appropriation of $315,702,000. The changes we propose in FY 1983 include:

o an increase of $5,361,000 for the 1890 Colleges and Tuskegee Institute to comply with the Agriculture and Food Act of 1981.

o a decrease of $7,359,000 in our special program efforts.

o a decrease of $1,793,000 in our Federal Administration activities.

The increase of $5,361,000 is requested to expand extension programs at the 16 1890 Colleges and Tuskegee Institute pursuant to section 1431 of the Agriculture and Food Act of 1981. This section mandates an increase in Federal funding for extension programs at these institutions from the previous 4% of total Smith-Lever appropriations to 6% in FY 1983.

The decrease of $7,359,000 in our special program efforts is requested to terminate or reduce funding for programs already being conducted and supported in some manner with formula and State and local funds. The major items of decrease are the Urban Gardening $3 million; Farm Safety, $1.02 million;

Non-Point Pollution, $702,000; and Renewable Resources Extension Act programs, $2 million. In most cases, the States have incorporated these programs within existing responsibilities, and especially in those States where these programs are needed most. This type of flexibility is also very helpful to the State Extension Services in determining which program should be carried out and at what level.

As I have indicated in past appearances before this Subcommittee, the Urban Gardening program has been so well received that most States now conduct a "Master Gardener Program." This program stresses the importance of home gardening, food preservation, and food safety to a family's declining finances.

The Farm Safety program is now being conducted in more than half of the total number of States and at a substantially larger program scale than possible with the special funding.

In the area of Non-Point Pollution, State and County health departments are expected to continue to implement regulations to assure proper construction and maintenance of individual waste disposal systems, assuring that inadequately treated effluent does not find its way into our waters. State water quality agencies, working with the Environmental Protection Agency, also have the capability of designing and implementing necessary regulations to abate Non-Point Source Pollution.

With respect to Renewable Resources Extension programs, these activities have been carried out by the States in varying degrees through their natural resource programs over the years.

Let me reiterate that I believe that the original aim to encourage States to initiate and increase efforts on these National or Regional concerns has been fulfilled through these so-called "seed moneys."

We proposed slight decreases in other special program efforts such as Pest Management (-$464,000), Energy Centers (-$39,000) and Pesticide Impact Assessment (-$134,000), principally in support of this Administration's goal to reduce Federal spending where it is possible. These decreases are general in nature and will not be detrimental to the effectiveness of the remaining programs.

A decrease of $1,793,000 is proposed in our Federal Administration and Coordinationactivities of the National program. The decrease is proposed to refocus the responsibilities of this staff to provide more national leadership and less program oversight to the formula funded programs. The phased in change should ultimately result in less program set-asides for Federal Administration. We are currently assessing our activities to determine which ones should be retained and emphasized to further the Extension partnership.

Mr. Chairman, this concludes my statement. I will be happy to respond to your questions.

BIOGRAPHICAL SKETCH

Denzil Clegg

Dr. Denzil O. Clegg was selected as the Associate Administrator of the Extension Service, U. S. Department of Agriculture November 1, 1981.

Dr. Clegg had been the Associate Director, Texas Agricultural Extension Service since 1978. He was Regional Director of the Illinois Extension Service before joining the staff in Texas, and has experience with the Extension Service in Colorado and Nebraska. While at Colorado, he was Director of the National Extension Summer School. He was a Kellogg Fellow while at the University of Wisconsin 1960-63.

Dr. Clegg grew up on an irrigated farm in Nebraska and received his B.S. in general agriculture from the University of Nebraska. He received M.S. and Ph.D. degrees in Extension Administration from the University of Wisconsin. He was on special assignment with the Extension Service, USDA, in the Fall of 1980.

Dr. Clegg is married, has five children, and presently resides in Vienna, Virginia.

PREPARED STATEMENT OF DR. RICHARD A. FARLEY

DIRECTOR, NATIONAL AGRICULTURAL LIBRARY

Mr. Chairman and members of the subcommittee, I welcome this opportunity to appear before you to discuss the proposed fiscal year 1983 budget for the National Agricultural Library.

Independent agency status for the National Agricultural Library came about as a result of a departmental reorganization last June. For the previous 3 years, it had been operating under the Technical Information Systems and the Science and Education Administration, both are now part of history.

With a collection of 1.7 million volumes, the National Agricultural Library continues to rank as the largest agricultural library in the free world. This year marks the 120th anniversary of its founding as the USDA library and the 20th anniversary of its designation as the National Agricultural Library.

The explosive growth in modern communmications technology and needed expansion of the national libraries and information network has caused NAL to place renewed emphasis on three areas. These are automated data processing, service to and cooperation with State land-grant and similar institutions, and broadened access to the Library's collection by scientists, researchers, and technical information specialists.

The Library is continuing to provide better, more efficient services to its users nationwide while attempting to hold down the costs of such services. Last year the Regional Document Delivery System, jointly supported by NAL and 30 land-grant university libraries, filled 60,000 requests for documents, an increase of 9,000 over fiscal year 1980. The cost per transaction stayed about the same during this 2-year period. We are seeking to expand this system as rapidly as possible to include all of the land-grant schools.

At its Beltsville headquarters and D. C. Branch, NAL's librarians answered 66,000 requests for information--an 18 percent increase over 1980--using automated literature searches and other information sources.

New microcomputers are being introduced for additional, more efficient searching of AGRICOLA, the Library's master online data base, and other agricultural-related data bases. New procedures for marketing AGRICOLA tapes to commercial vendors have been instituted. Expansion of user fees to cover more library services is being considered.

A nationwide electronic mail network linking Federal and State research and education communities was initiated by the Extension Service and National Aricultural Library after a 1-year test. By the end of fiscal year 1981, 44 State Extension Directors and 23 State Experiment Stations were on the system. The Library is also coordinating a cooperative project to film all publications of land-grant institutions before these documents deteriorate. The result will be a collection covering a period from the late 1800's to the present.

FY 1983

We propose a fiscal year 1983 budget of $9,016,000 for the National Agricultural Library. This represents an increase of $737,000 over the adjusted base of $8,279,000 for fiscal year 1982. Of the proposed increase $100,000 will be for national cost sharing to regionlize indexing, document delivery and information creation and dissemination. The funding of this program is essential for achieving the effective decentralization of library systems in order to improve the timeliness and usefulness of such systems for Federal and State Research Organizations. The increase will be used for NAL participation in planning and development of a Federal/State technical information network. $50,000 is requested for the Integrated Reproduction Management (IRM) Systems to develop a tracking mechanism needed to coordinate Federal, State, and private sector IRM programs and projects. This mechanism will identify IRM programs and projects on a fiscal and program basis. The funding will enable the Library to store and retrieve all prior IRM plans, project designations, progress reports and related information. An additional $342,000 is needed for increased operating costs and $245,000 for the restoration of pay costs absorbed in FY 1982.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions.

BIOGRAPHICAL SKETCH

SAMUEL T. WATERS, ASSOCIATE DIRECTOR, NATIONAL AGRICULTURAL LIBRARY

Mr. Waters was born in Boston Mass., and grew up in western New York. He entered the Army in 1943 and served as a combat infantryman in World War II. He obtained his B.A. degree in 1950 from the University of Colorado.

He entered Federal service at the Library of Congress in 1951. In 1955 he joined the library at Georgetown University and in 1959 received his MSLS from Catholic University. In the same year he became the associate librarian at George Washington University and in 1960 returned to Georgetown University as the assistant librarian. In 1966 he reentered Federal service as the Chief Reference Services Division, National Library of Medicine, later becoming Deputy Associate Director for Library Operations there. He joined the National Agricultural Library in 1970.

Mr. Waters is married and has four children.

SUMMARY OF STATEMENTS

Senator **Cochran**. We invite you to summarize or highlight the programs or statements that you have submitted to us. At the conclusion of these statements, we will proceed with any questions that might occur to us during your presentation.

You may proceed.

Science and Education Programs

STATEMENT OF ANSON R. BERTRAND

Dr. **Bertrand**. Thank you, Mr. Chairman. I appreciate the opportunity to appear before the committee this morning on behalf of the science and education programs of the Department and the agencies you have identified in your previous statement.

I want to initially express appreciation to this committee for the guidance and support you have provided. It is very valuable support.

Mr. Chairman, as we move into the 1980's, I know the committee is aware of the fact we have some formidable issues before us in the science and education areas. Agricultural productivity has been mentioned as being one of the very important issues that must be addressed, the costs of production. We must expand our total productivity in order to meet the demands worldwide. Our ability largely depends upon our supply of the necessary science and education information to the producers if we really are to meet the challenges ahead.

NATURAL RESOURCE PROGRAMS

These challenges, of course, are made greater by the fact we are faced today with an economic situation fraught with inflation, with declined productivity, and with an imbalance of foreign trade.

We are concerned about farm productivity in that the rate of growth of productivity has been declining in recent years. The demand for agricultural products is increasing at a rate faster than our current productivity would match.

In agribusiness costs are increasing. This places additional economic pressure on the farmers who have to buy the inputs.

Continued strong contribution to the trade balance is absolutely necessary if we are to offset the costs of imports.

Much of the work that we will be describing this morning, Mr. Chairman, relates to the support of the action and regulatory agencies. Our research is aimed at helping them do a better job of monitoring and setting standards and adopting new concepts in the action of regulatory agencies.

We are also concerned, Mr. Chairman, about production and marketing costs, so we will be addressing some issues there.

We are concerned about weather. We are concerned about a whole host of natural resource programs that we will discuss with you this morning.

CAPACITY OF SCIENCE AND EDUCATION SYSTEM

The capacity of this science and education system that we are addressing this morning is really rather great. We have the ability to address complex problems, to be flexible, to meet the major challenges that have come in the years past and will come in the years ahead. We have a certain amount of basic research, mission-oriented research and applied research, all of which pays high dividends.

Earlier Senator Proxmire referred to the high dividend paid for this investment. We have data that would show that his testimony is certainly on target.

FEDERAL-STATE-COUNTY PARTNERSHIP

The Federal-State-county partnership that we address in this science and education system is unique in the world. It is a system that has permitted our science and education to serve the farmers of this country in a way that has not been done in any other parts of the world.

The system is also responsive. It is responsive to the needs of the day. An example is the corn blight of the 1970's, when very quickly we were able to overcome what would have been a catastrophic problem.

Countless examples can be drawn of basic and applied research and the results that have come therefrom. I would mention just one, and that is the basic research that was conducted over many years at Plum Island and permitted us this past year to announce a genetically engineered vaccine for foot and mouth disease. That is one of the many breakthroughs that we can point to, Mr. Chairman.

CONSTRAINTS IN SYSTEM

We have, of course, limitations due to inflation. We are short of expertise in food and agriculture, and it will become more critical in the years ahead. As we are shifting more of our emphasis away from defensive research to research aimed at productivity, this takes time, so we are in the process of making adjustments. We are also finding that it is necessary to do more multidisciplinary research and education activities, all of which are more costly when we bring together groups of scientists to solve problems, but this is the only way we can solve these complex problems that are facing us today.

BUDGET REQUEST

Mr. Chairman, we are presenting to the subcommittee today a budget for science and education that amounts to $1.02 billion. That is roughly a 5-percent increase over the 1982 appropriation. This budget has been built upon the national resolve to hold inflation down and to reduce the rate of growth in costs in this country. We believe that the overall austerity that is built into this budget makes it a budget worthy of support. We also believe that it is vital to the needs of this country that the science and education program before you be sustained.

Mr. Chairman, we are presenting here today a budget that aggregates $1.02 billion to support the Agricultural Research Service, the Cooperative State Research Service, the Extension Service, and the National Agricultural Library.

With that, Mr. Chairman, I will conclude my remarks and introduce Dr. Kinney, who can go ahead with his remarks on the Agricultural Research Service.

Senator COCHRAN. Thank you, Dr. Bertrand.

AGRICULTURAL RESEARCH SERVICE

STATEMENT OF TERRY B. KINNEY

Dr. KINNEY. Mr. Chairman and members of the committee, it is a pleasure to appear before you to present and discuss the 1983 budget proposed for the Agricultural Research Service. Before I present the summary of the statement, I would like to introduce two of the witnesses that are accompanying me. One is Dr. Mary Carter, Associate Administrator of the Agricultural Research Service, and the other is Dr. Thomas Army, who is the Deputy Administrator of the Agricultural Research Service.

I will quickly summarize my comments as they are submitted for the record.

Last year when we met, I spoke to the issues and challenges confronting this Department and the agricultural research community in the next decade. These included research issues dealing with the needs of both producers and consumers in terms of agricultural productivity, natural resources, exports, and improving the well-being of the American people. The concerns are still the same this year.

The socioeconomic and geopolitical systems about us are dynamic. We believe we must be equally dynamic if our scientists are to contribute to the solution of these increasingly complex problems. Scientific discoveries, such as genetic manipulation of plant and animal cells, which are far reaching and demonstrate that such a dynamic capacity does exist in the agricultural research community.

ARS BUDGET REQUEST

The 1983 budget of $468,548,000 for the Agricultural Research Service provides for approximately a 10-percent increase over 1982 to strengthen our ongoing programs. More specifically, it proposes increases in basic research in the plant, animal, natural resources, and postharvest biological processes. It enhances the national plant germplasm system which is the base for all applied breeding programs, public and private. It emphasizes our research to conserve and more effectively utilize this country's land and water resources. It provides research to reduce soil erosion and continues to improve the efficiency of agricultural water use and water quality. It expands animal health and production research and provides for new thrusts in range management and human nutrition research.

The research in ARS is being directed to the forefront of major research problem areas in both the short and long term, utilizing the framework of a strong program management, the channeling of significant program and resource recommendations through the Federal budget system, and the development and implementation of comprehensive long-range planning. Through the fusion of strategic plans, prudent management and through this budget process, we can survive in this dynamic environment. I am confident we can deliver the scientific breakthroughs that will be required.

As this committee is aware, the history of ARS is long, and it has an outstanding list of contributions to the food and agriculture complex. Some of these are listed in the prepared statement, and more are provided in the explanatory notes. Although I believe all of these accomplishments are worthy credentials and representative of our research, they represent the past achievements, and we must look ahead. Research is the hope for the future, and now is the time to target and address emerging problems. We must not lose the opportunity.

In closing, Mr. Chairman, we want to express our sincere appreciation for the understanding and support given by you and this committee.

I would like to mention that in the boxes behind you there are some examples of ARS research accomplishments. These are simply some examples of the end products of a long line of research in agriculture, starting with very basic research that leads to development of useful products. The committee members may take one of these, and I think it will give you some good examples of agricultural research.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you.

COOPERATIVE STATE RESEARCH SERVICE

STATEMENT OF WALTER I. THOMAS

Dr. BERTRAND. Mr. Chairman, we will now turn to Dr. Thomas, Cooperative State Research Service, for his statement.

Dr. THOMAS. Mr. Chairman and members of the committee, I welcome this opportunity to appear before you and discuss the proposed budget for fiscal year 1983.

This budget is in support of the research programs of the USDA Federal-State research partnership described in the Agriculture and Food Act of 1981. This unique partnership arrangement exists in food and agricultural research between the Federal Government and the governments of the several States, whereby the States have accepted and have supported research programs through appropriations and legislation dating back to the First Morrill Act of 1862, the Hatch Act of 1887, and the Second Morrill Act of 1890. This partnership has played a major role in the outstanding successes achieved in meeting the varied, dispersed, and in many cases, site-specific needs of American agriculture. We believe this partnership must be preserved and enhanced.

The budget request for Cooperative State Research Service for fiscal year 1983 is $232,103,000. This represents an increase of $10,887,000 over funds available for fiscal year 1982.

MAJOR CHANGES IN CSRS

In brief, the major changes requested for Cooperative State Research Service are:

(1) Increases for the Hatch and 1890 institutions funds to provide for increased operating costs;

(2) A program decrease for cooperative forestry research;

(3) Elimination of funding for the animal health and disease research formula program under section 1433, Public Law 95-113;

(4) An increase of the competitive research grants funding for basic research in plant science; and

(5) A net decrease for Federal administration (direct appropriation) for reduced Federal administration and staffing.

BUDGET REQUESTS

Our budget request for the Hatch research program is $144,495,000. Of this $139,934,041 is for payment to States, $4,084,959 for Federal administration, and $476,000 for penalty mail costs. This is an increase of $3,386,000 over the fiscal year 1982 Appropriation Act to provide for increased operating costs.

The budget request for the McIntire-Stennis cooperative forestry research program is $10,807,000. This is a decrease of $1,224,000 from the fiscal year 1982 Appropriation Act.

We are requesting a funding level for the 1890 Colleges and Tuskegee Institute research program of $21,674,000 for fiscal year 1983. This is an increase of $182,000 over the fiscal year 1982 Appropriation Act to provide for increased operating costs.

We are requesting funding of $8,800,000 to initiate a facilities construction program for the Colleges of 1890 and Tuskegee Institute.

Under the competitive research grants program, Public Law 89-106, the budget request for this program for fiscal year 1983 is $22,880,000. This includes $19,880,000 for research related to plant science and $3 million for research on human nutrition, or an increase of $6,560,000 over the fiscal year 1982 Appropriation Act.

Under the special research grants program, the budget request for this program is $21,424,000, a net decrease of $475,000. An increase of $2,980,000 is proposed for tropical and subtropical research. Selected items of research totaling $3,455,000 are proposed for a decrease.

Support for the animal health and disease formula program under Public Law 95-113 is not requested for fiscal year 1983.

The fiscal year 1983 budget provides for a net decrease of $582,000 for Federal administration, direct appropriation. Certain aspects of the roles and functions required of CSRS, as well as the staffing level, are proposed for reduction in scope.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you very much, Dr. Thomas.

Dr. BERTRAND. Mr. Chairman, we will now turn to Dr. Greenwood for her statement concerning the Extension Service.

EXTENSION SERVICE

STATEMENT OF MARY NELL GREENWOOD

Dr. GREENWOOD. Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you to discuss the Extension Service's proposed budget for fiscal year 1983. I have submitted a statement for the record, so I will only highlight aspects of my testimony at this time.

As the educational arm of the U.S. Department of Agriculture and through its partnership with land-grant colleges and universities, the Extension Service uses a nationwide educational delivery system to extend knowledge into every county in the United States and its territories.

BASIC PREMISE OF EXTENSION ASSISTANCE

The basic premise of Extension assistance has been that human progress can be enhanced when the products of research are translated into readily understandable language and made widely available to individuals, along with the assistance needed to develop higher quality decision making for appropriate analysis and application of factual information. One of the keys to the Extension's success is its unique structure as a partnership of Federal, State, and local governments with strong guidance in its priorities from those it serves. The more than 1 million volunteers, who greatly multiply the impact of the Extension professional staff and help extend Extension's program scope and influence, also represent forceful, locally respected advocates for the Extension system of "helping people to help themselves."

A pervasive, but often unrecognized, benefit from participation in Extension programs is the development of leadership abilities among clientele. In Extension's close working relationship with people at the grassroots level, the people are encouraged, prompted and assisted in every appropriate way to articulate their needs and interests and to assume increasingly complex leadership responsibilities within their communities.

In making decisions on program priorities, Extension relies on guidance from those who seek and need information. As a voluntary education program, Extension can only succeed when it is in consonance with such needs. Extension prides itself on being a piece of the Government which never left the people. Since 1914, Extension has been contributing vigorously to maintaining a "self-help society."

BUDGET REQUEST

The budget we are proposing in fiscal year 1983 is at essentially the same level as appropriated in 1982, with some minor modifications. In this budget we will not be asking for funds to start any new programs. In fact, in some areas we are recommending that funding be reduced. Our Smith-Lever formula funds, which undergird the cooperative relationship with our State and local partners, will however remain the same. Our EFNEP program, which effectively teaches our Nation's poor and disadvantaged citizens about proper nutrition, is also being kept at the same level as last year.

We recommend a budget of $311,911,000 for the Extension Service in fiscal year 1983. This is $3,791,000 lower than our fiscal year 1982 appropriation of $315,702,000. The changes we propose in fiscal year 1983 include: An increase, of $5.3 million for the 1890 Colleges and Tuskegee Institute; a decrease of $7.3 million in special program efforts; and a decrease of $1.79 million in Federal administration activities.

The increase of $5.3 million is requested to expand Extension programs at the 16 1890 Colleges and Tuskegee Institute pursuant to section 1431 of the Agriculture and Food Act of 1981. This section mandates an increase in Federal funding for Extension programs at these institutions from the previous 4 percent of total Smith-Lever appropriations to 6 percent in fiscal year 1983.

BUDGET DECREASES

The decrease of $7.3 million in our special program efforts is requested to terminate or reduce funding for programs already being conducted and supported in some manner with formula and State and local funds. The major items of decrease are: Urban gardening, $3 million; farm safety, $1.02 million; nonpoint pollution, $702,000; and Renewable Resources Extension Act programs, $2 million. In most cases the States have incorporated these programs into existing responsibilities, and especially in those States where these programs are needed most.

We propose slight decreases in other special program efforts such as pest management, energy centers and pesticide impact assessment, principally in support of this administration's goal to reduce Federal spending where it is possible. These decreases are general in nature and will not be detrimental to the effectiveness of the remaining programs.

A decrease of $1.7 million is proposed in our Federal administrative and coordination activities. This decrease is proposed to refocus the responsibilities of this staff to provide more national leadership and less program oversight to the formula-funded programs. We are currently assessing our activities to determine which ones at the Federal level should be retained and emphasized to further the Extension partnership.

Mr. Chairman, this concludes my statement. I will be happy to respond to any questions the subcommittee may have.

Senator **Cochran**. Thank you very much, Dr. Greenwood.

Dr. **Bertrand**. Mr. Chairman, we will move now to Dr. Farley for a brief statement concerning the National Agricultural Library.

National Agricultural Library

STATEMENT OF RICHARD A. FARLEY

Dr. **Farley**. Mr. Chairman and members of the committee, I welcome this opportunity to appear before you to discuss the 1983 budget for the NAL.

With the collection of 1.7 million volumes, the National Agricultural Library continues to be the largest agricultural library in the free world. This year marks the 120th anniversary of its founding as the USDA library and the 20th anniversary of its designation as the National Agricultural Library.

We propose a fiscal year 1983 budget of $9,016,000 for the NAL. This represents an increase of $737,000 over the adjusted base for fiscal year 1982. Of the proposed increase, $100,000 will be for national cost sharing to regionalize indexing, document delivery, and information creation and dissemination. The request is $50,000 for the integrated reproduction management systems to develop a tracking mechanism needed to coordinate Federal, State and private sector IRM programs and projects. An additional $342,000 is needed for increased operating costs and $245,000 for the restoration of pay costs absorbed in 1982.

Mr. Chairman, that concludes my statement.

Senator COCHRAN. Thank you very much, Dr. Farley.

I am going to yield at this point to my distinguished colleague from South Dakota, Senator Abdnor, for any questions or observations that he might have. We have here a panel of the science and education functions. I appreciate your being here and the contribution that you make to the work of the subcommittee. We have already had statements from Senators Stennis and Proxmire. Any observations you care to make, I want you to feel free to do so.

Senator ABDNOR. Thank you, Mr. Chairman. I am sorry I am late. Like everyone, we have three or four meetings going at the same time, and I have another one on transportation I have to get to.

I guess if we are really going to find some answers to the agriculture problems, it is going to have to come through research. I think we all agree increasing price supports for farmers is nice, but it is not about to happen in the budget. I was reading about the additional deficits Director Stockman is talking about coming directly from Agriculture. So there is a need for research and for new uses of farm products, and I guess it is more necessary today than ever before.

PRODUCTIVITY IN AGRICULTURE

I see in the statements of Dr. Kinney and Dr. Bertrand that our productivity is dropping in agriculture. I thought the only way we would stay alive in agriculture is through productivity.

Do these commodity checkoff groups, like the wheat producers, cooperate in research with you people or do they go on their own?

Dr. BERTRAND. We have a close working relationship with most of the commodity groups, Senator Abdnor. They present to us on an annual basis their research priorities. We meet with almost all of them at least once a year. So there is a close working relationship both at the Washington level, as well as in the field.

USES FOR AGRICULTURAL COMMODITIES

Senator ABDNOR. Do you see anything on the horizon that is a breakthrough in research that is going to suddenly help solve some of our surplus situations? New uses?

Dr. BERTRAND. Senator Abdnor, research is a long-term, continuing activity. There are items constantly coming forward, small items, that contribute to productivity. I cannot point out at this time any specific breakthroughs that, I think, will make major contributions in the short run to the cost of production. However, we continue to look at the efficiency of fertilizer use, the efficiency of water use. We continue to develop new varieties, improved seeds, all of which contributes increments. But it is difficult to point to one major item.

Senator **Abdnor**. I am the recipient of some of the fine results between the State and Federal. That is all good. It helps the productivity. But if we don't find some way to make use of our farm products, all it does is spell more doom for farmers. It just depresses the price more. Since I have been a kid, I have heard the story that we are going to eat our way out of the surplus. I don't know, Chairman Cochran, if that is about to happen.

I happen to sit on the Joint Economic Committee and am chairman of the Subcommittee on Agriculture and Transportation. I wish I could impress upon the economists of this Nation that farmers don't get credit for their great ability to produce. A lot of that is the result of the work your group does. I guess we have to figure out some additional uses for this, so all the other work doesn't go in vain. But it doesn't really help the overall cause either.

I wish I had a quick answer. I know they do a great job and research is a valuable part of it. We have to find markets for the achievements we get through research.

Dr. **Bertrand**. Thank you, sir. We do, Senator Abdnor, have a postharvest technology research program, part of which is aimed at searching for new uses, extending uses for agricultural commodities. That is a program that is ongoing, continual search for additional uses.

Senator **Abdnor**. Thank you.

POSTHARVEST TECHNOLOGY

Senator **Cochran**. Thank you very much, Senator.

You were mentioning the postharvest technology work that is being done. I wonder whether or not, in your assessment, the budget request you are presenting to the subcommittee this morning is sufficient to adequately fund the work and the efforts to develop new uses for agricultural commodities.

Dr. **Bertrand**. Dr. Kinney, would you answer that.

Dr. **Kinney**. Mr. Chairman, we have approximately a $60 million program relating to post-harvest technology. I guess I would be less than honest if I said yes, everything that is included in this budget is adequate. I don't think there is an adequate research base for agricultural research. But within the limitations we face in many, many areas, I would have to say yes, I think our budget is as well balanced among the various disciplines in light of the priorities and economic restrictions.

Senator **Cochran**. Are there any projects or programs underway that will be eliminated under the budget request that you are making?

Dr. **Kinney**. In the post-harvest technology area?

Senator **Cochran**. That or any of the other basic research efforts that you have under your jurisdiction.

Dr. **Kinney**. Yes, Mr. Chairman. Some programs will be eliminated this year, or redirected, but that is a part of our normal management process and outside of the budget presentation. It is part of our program review system used to maintain an up-to-date research program. In the last 2 or 3 years, because of the limitations on budget, we have increased our effort on an annual basis of looking at our total base program and redirecting many, many projects from what was lesser priority into the more urgent areas.

PROJECTS AND PROGRAMS IN ARS

Senator **Cochran**. I wonder if you could do this for the subcommittee. I know you have to assign priorities for projects and programs that are under your management control. Could you submit for the record a listing of those programs and projects that are being undertaken and assign a priority to those programs and projects for the information of this committee. Start with programs that you consider to have the highest priority and then proceed down through those that may enjoy a lesser priority in your judgment. Could that be done?

Dr. **Kinney**. Yes, it could, Mr. Chairman. I would make a plea for accommodation to how we list these, because it tends to cause some consternation among our scientists as to the categorization of low- and high-priority research. We will work with your staff for a procedure that will give you the information.

Senator **Cochran**. That will be helpful. I certainly understand those misgivings about that procedure, but we would appreciate having that information for the record.

Dr. **Kinney**. Yes, sir.

[The information follows:]

Agricultural Research Service Objectives and Approaches

Objective: Conserve and protect land resource base

Approaches to be used to accomplish objective:
Develop systems to use soil, water, and air resources for maximum production while conserving the base.
Predict and control soil erosion and sedimentation.

Objective: Increase plant and animal production efficiency

Approaches to be used to accomplish objective:
Decrease losses in plant yield through improved pest management
Increase inherent (genetic) plant yield potential
Increase efficiency of cultural and management practices
Screen new crops for potential production in U.S.
Maintain and increase the genetic and physiologic capacity of animals to produce.
Reduce and prevent losses due to infectious diseases.
Reduce and prevent losses from internal and external parasites.
Improve feed utilization
Improve management practices and systems.
Prevent, control, or eliminate losses from toxicants.

Objective: Conserve and manage agriculutral water resources; increase crop water use efficiency

Approaches to be used to accomplish objective:
Develop practices for more efficient use of precipitation.
Develop more efficient irrigation and drainage systems and practices.
Develop systems to control river basin soil and water salinity.
Improve watershed management to increase water supplies and improve quality.

Objective: Provide support to action/regulatory agencies

Approaches to be used to accomplish objective:
Productivity
Conservation of resources
Safety
Control insects affecting man

Objective: Assure adequate nutritive value, optimum safety and consumer acceptability of the U.S. food supply

Approaches to be used to accomplish objective:
Maintain and improve consumer acceptability and nutritive quality of agricultural products.
Determine characteristics of nutritious food.
Determine food characteristics desired by consumers and develop objective measures of those characteristics.

Provide methods and technology to reduce or eliminate toxicants and microbial contaminants.

Objective: Assure and expand export markets for U.S. agricultural products; monitoring and prediction of national and international food needs.

Approaches to be used to accomplish objective:
Reduce losses of export products from pests, biological degradation and physical damage.
Maintain quality and product safety of export products.
Provide products specifically to meet market demands and requirements of foreign markets.
Develop remote sensing technology

Objective: Improve marketing efficiency

Approaches to be used to accomplish objective:
Reduce losses of agricultural products.
Increase efficiency of processing and conversion.
Increase efficiency of distribution of agricultural products from producer to consumer.
Enhance end-use value of farm products.

Objective: Reduce the nation's dependency on petroleum as an energy source

Approaches to be used to accomplish objective:
Develop methods to use agricultural crops as a source of energy.
Develop agricultural crops that can be used as a source of energy in an emergency.

Objective: Maintain and improve the quality of the environment

Approaches to be used to accomplish objective:
Predict and reduce pollution of soil, water, and air resoures.
Utilize plants for maintaining and improving environmental quality.

Objective: Provide support to AID and OICD to increase agricultural production in less developed nations.

Approaches to be used to accomplish objective:
Provide consultants and advisors to other countries.
Conduct research in other countries.
Conduct research in U.S. that is aimed at solving production problems of other countries.

Objective: Enhance the well-being of people; improve family resources.

Approaches to be used to accomplish objective:
Control insects affecting man.
Improve rural housing, waste disposal, and water supplies.
Provide sound guidance material for improved level of living by families.

PERSONNEL REDUCTION

Senator **Cochran**. In looking at some of the functions, particularly in Extension whose budget request is decreased by $3.8 million, I wonder what this is going to do to personnel. That may be a question for Dr. Bertrand, but perhaps Dr. Greenwood or others could answer it for us. What are the effects of the proposed personnel cuts that may be made on the Cooperative State Research Service and Extension Service?

Dr. **Bertrand**. Mr. Chairman, the proposed cuts in personnel in both Extension and Cooperative State Research Service will reduce the Washington-based staff by approximately 30 percent. This will, of course, eliminate certain activities or will at least reduce certain activities. It will change the emphasis in the leadership applied from the Washington level.

I think I would like to turn to both Dr. Greenwood and Dr. Thomas to give you the specifics as to the programs that they will be able to continue and those that will have to be diminished.

COOPERATIVE EXTENSION SYSTEM

Dr. **Greenwood**. Mr. Chairman, I would like to mention two activities that are currently underway which started some months ago that are examining the mission, scope, and priorities of the Cooperative-Extension system. One activity is a joint effort involving the U.S. Department of Agriculture and the National Association of State Universities and Land Grant Colleges. The Secretary and the president of NASULGC have jointly appointed a committee composed of approximately 20 to 25 prominent people from across the country. The charge to the committee is to examine the scope and mission of Extension in this decade. Part of the charge to the group was also to examine the role of various partners—the Federal, State, and local.

The second effort, which is also currently underway is the oversight hearings before the House Agriculture Subcommittee on Department Operations, Research and Foreign Agriculture. That activity is examining the role of each partner in the Extension system.

We are, likewise, conducting a very intensive review of our Federal operations with the cooperation of the Extension Committee on Organization and Policy. ECOP has called a special meeting in April to work with us in analyzing the functions that should be maintained in the future. Without question, some of our current functions will have to be either totally eliminated or reduced with these personnel cuts. I cannot tell you today what those are. We hope, through a very careful analysis, to be able to identify those functions that are of highest priority both to the Department and also to the Extension system and continue doing them.

REVIEW OF CSRS FUNCTIONS

Dr. **Thomas**. The Cooperative State Research Service, during the week of February 8, had a panel of State research administrators review CSRS functions. The recommendations of that review panel certainly will have an effect on which functions we retain as the highest priority. We have just received the report, so we have not had a chance to study it in detail. However, we do know that the policy formulation we are involved in will have to continue. We must continue administering and carrying out Federal policies and regulations. We will continue to be as active as possible in national and regional research planning, so that we can be effective in the partnership and emphasize those areas that are the highest priority, as well as avoid the possibility of duplication of research efforts. It will also be necessary for us to continue budget development and program monitoring. The CSRS staff is most knowledgeable about the research programs of the State partners and can provide necessary details about these programs when the budget goes behind the curtain.

Some areas or functions will have to be reduced or terminated. We probably will have to reduce our effort devoted to program evaluation and onsite research reviews which we carry out with all the partnership institutions. We will probably have to reduce our participation in the Hatch Act regional research technical committee meetings because of the reduced number of scientists and travel funds. We will consider having to eliminate administering pass-through funding from other agencies because of the extra time and commitment that this places on our scientist staff. Also, our ability to answer public inquiries will be reduced. At the moment in many of the scientific disciplines I only have one scientist. Sometimes when there are many requests to work with various groups in one day for that scientist, he is overloaded. So even now we are not as prompt in response as we would like to be.

We will also look at other possibilities, contracting out or cooperating with client institutions who have particular data programing skills and computer capabilities in helping operate our Current Research Information System.

Dr. GREENWOOD. Mr. Chairman, in addition to the kinds of activities Dr. Thomas has mentioned, I would like to identify an area where the Federal partner has made a considerable contribution to the Extension system through the years. That is the Federal funding and guidance for demonstration and innovative projects. We have in past years funded special pilot efforts directed toward solving emerging issues or concerns, and based on this proposed budget, we would not be able to continue this important activity from the Federal level.

Senator COCHRAN. Would that be such things as the Rankin County Extension Service pest control on cotton acreage?

Dr. GREENWOOD. That is a prime example, sir.

RECOGNITION OF SENATOR CHILES

Senator COCHRAN. I am very happy that Senator Chiles is here with us. He is a valuable member of this subcommittee. I want to recognize him at this point for any observations or comments or questions that he might have.

Senator CHILES. Thank you, Mr. Chairman, I appreciate the opportunity to be here.

TROPICAL AND SUBTROPICAL RESEARCH

The budget request for section 406, tropical and subtropical agriculture, indicates the same level of funding as fiscal year 1982 but a major change in treatment of those funds. What is the logic in transferring the bulk of section 406 funds to the Cooperative State Research Service and retaining $735,000 in-house for ARS? The Department has indicated this will increase research capability for solving food and agricultural problems in the tropical and subtropical area. Can you specify how research capabilities will be improved as compared with the present arrangement?

Dr. **Bertrand**. Senator Chiles, of the $735,000 to be retained by ARS approximately one half will be used for the Mayaguez Institute of Tropical Agriculture MITA, in Mayaguez, P. R. The balance will be used for in-house research at several locations. We have had a continuing, long-standing program in Mayaguez relating to tropical research. The decision to move funds from ARS to CSRS was based upon the fact that most of the funds have been used extramurally. From the point of view of close working relationship with our State partners, it was decided to move this into the CSRS special research grants program. We do not expect that it will have any detrimental effect upon the research done. In fact, we expect a much more harmonious working relationship between those concerned with the Pacific Basin and the Caribbean Basin and ARS.

Senator **Chiles**. Under the present arrangement both the University of Florida and the University of Hawaii have been able to develop a good deal of momentum in meeting the goals of the section 406 program. Would you see the universities receiving the same level of support under the special research grant program?

Dr. **Bertrand**. May I ask Dr. Thomas to answer that, since he will be administering this under this plan?

Dr. **Thomas**. Yes, sir, I would expect them to be receiving similar levels, because our mode of operation would be to continue to use the advisory groups that have been used in the past to give recommendations on highest priority projects and funding levels for those recommended areas that should receive the most emphasis. Both the University of Florida and the University of Hawaii are represented on those two committees.

CORNSTALK BORER RESEARCH

Senator **Chiles**. I understand that ARS, through the extramural project at the University of Florida, will extend research on the lesser cornstalk borer and initiate new research on mole crickets. What is the status of entering into such agreements with the university, and what level of funding is anticipated?

Dr. **Kinney**. Senator Chiles, I will have Mr. Victor give us the exact figure on what is in the program. But yes, we have entered into a cooperative arrangement with the University of Florida.

Mr. **Victor**. Funding was approved very recently for these projects. Currently, negotiations are underway between ARS and the University of Florida to consummate research agreements involving the mole cricket and the lesser cornstalk borer totaling $100,000. $50,000 is being implemented at the Gainesville laboratory for research on the sugarcane borer.

POSTHARVEST TECHNOLOGY

Senator CHILES. Thank you, Mr. Chairman. I understand there have already been some questions asked on postharvest research, which I am interested in. I would like to submit my questions on that for the record.

Senator COCHRAN. That will be permissible.

Senator CHILES. Thank you for allowing me to do that.

[CLERK'S NOTE.—Senator Chiles' questions and the Department's responses appear on pages 120–123.]

AVAILABILITY OF AGRICULTURAL SCIENTISTS

Senator COCHRAN. Thank you very much, Senator Chiles, for your contribution to the work of the subcommittee and being here to assist in reviewing the requests that we have from the administration.

In connection with science and education, Dr. Bertrand, what is the forecast for the availability of agricultural scientists to conduct necessary research during this decade. Is there projected to be an adequate supply of agricultural scientists? What effect will the amount of funding that is available in this budget request have on replacing retiring scientists and the effort that we have to have to meet the needs of agriculture and agribusiness in the future?

Dr. BERTRAND. Mr. Chairman, this budget does not make a specific request for support of graduate fellowships or for the teaching program in general. It does, however, provide the potential for a considerable amount of support for graduate studies in that much of the money that passes to the universities will be used to support graduate students and graduate student assistantships. In total, there is a deficiency in expertise now, and we expect it to be greater in the future. Several areas where we have critical shortages at the present time include agricultural engineering, some of the areas of postharvest technology, some of the areas for research in basic plant metabolism, and plant breeding. To summarize, Mr. Chairman, we are in years ahead going to be short of expertise unless this country finds some way to train more people at the advanced degree level.

1890 INSTITUTIONS RESEARCH FACILITIES

Senator COCHRAN. In connection with the support that is being made to colleges and universities, I have been advised that there is some serious concern about the proposed allocation of funds by the Cooperative State Research Service to the 1890 Colleges and Tuskegee Institute. The 1981 farm bill makes available $50 million to these institutions over a 5-year period to assist them in the purchase of equipment, land, and other facilities. In this budget, I notice that $8.8 million is requested for fiscal year 1983. My information is that one proposed formula for the distribution of these funds is said to be inequitable, grossly inequitable, in that it provides 58 percent of the funds to 5 of the eligible 17 institutions. Under this allocation 25 percent of the funds would go to two institutions in the same State—Alabama. As a result, some institutions will be left out completely, including Alcorn. They end up with the short end of the stick. What is the status of this proposed allocation? Is this a decision that is binding on the Cooperative State Research Service?

Dr. THOMAS. The Cooperative State Research Service is collaborating with the 1890 Colleges and Tuskegee who will be involved in this. The presidents of these institutions met again last week to look at various alternatives to support the development of these research facilities' needs and to come to an agreement on the distribution of funds that will be recommended to the Secretary of Agriculture for his approval. When recommendations are received and approved, appropriate distribution of funds will be made according to the recommendations. We do not yet have the recommendation that is to come in from the heads of those institutions.

Senator COCHRAN. Well, I would like to make available to you a copy of a letter that I have received from Dr. Walter Washington, who is president of Alcorn State University at Lorman, Miss. He summarizes the meeting that was held and points out that some of the proposals for allocating these funds that were submitted by the staff of the Department of Agriculture for consideration weren't considered, and that the recommendation that was approved was not a unanimous decision by the college presidents at the meeting that has been referred to.

CORRESPONDENCE

At this point, I will make a part of the record Dr. Washington's letter which contains a proposal for allocation of these funds which seems, in the judgment of this Senator at least, to be much more equitable and fair. This proposal assures a base allocation of $750,000 for each of the institutions and additional funding according to a formula which seems to me to be much more appropriate, much more equitable, and will assure that the intent of Congress as reflected in the farm bill of 1981 is carried out. It was not intended that just a few of these colleges receive these funds, but that all of the 1890 Colleges which are qualified to carry out these important functions are supported. I will submit this for the record, and I will also submit a copy of it to you for your consideration.

[The letter follows:]

LETTER FROM WALTER WASHINGTON

PRESIDENT, ALCORN STATE UNIVERSITY

The Honorable Thad Cochran
United States Senate
Washington, D. C.   20510

My dear Senator Cochran:

Public Law 97-98, Section 1433 makes available $50,000,000 to the 1890 institutions and Tuskegee Institute over a five-year period "for grants to the Eligibe Institutions for the purpose of assisting them in the purchase of equipment and land, and the planning, construction, alteration, or renovation of buildings to strengthen their capacity to conduct research in the food and agricultural sciences."

Section 1433 does not provide a formula for allocation of funds to individual institutions. The act states "grants awarded pursuant to this section shall be made in such amounts and under such terms and conditions as the Secretary shall determine necessary for carrying out the provisions of this section."

The Secretary gave the presidents of the 1890 Institutions an opportunity to have input into issues related to the Research Facilities Act, particularly with reference to the distribution and prioritizing of research facilities funds. In a meeting of the presidents of the 1890 Institutions and/or their representatives held in Atlanta, Georgia on February 24, 1982, 11 out of 16 institutions voted for a proposal which would distribute 58 percent of the funds to five institutions (Alabama A. & M., Tuskegee Institute (Alabama), Fort Valley State College (Georgia), Prairie View A. & M. University (Texas), and North Carolina A. & T. University. Alcorn State University voted against this proposal. We consider it inequitable, discriminatory and grossly unfair.

Several proposals were submitted by the U.S.D.A. staff for consideration by the presidents. Unfortunately, they were not all considered. Alcorn State University supports the distribution as contained in alternative formula III, a copy of which is attached. This formula provides a base of $750,000 for each institution (based upon five science man years) and distributes the balance according to the Evans-Allen formula among the 17 institutions. We think this formula is fair and equitable and can be justified.

Inasmuch as the Secretary of Agriculture may be finalizing his decision on the distribution of the funds because of a legislative hearing scheduled for March 4, 1982, it is most important, Senator Cochran, that you quickly register our dissatisfaction over the present proposal. We ask you to use the power of your good office to urge the Secretary to adopt a formula for distributing the funds which is fair and equitable.

There is absolutely no fairness in 58 percent of the funds going to five out of seventeen institutions or in 25 percent of the funds going to two institutions in the same state--Alabama A. & M. University and Tuskegee Institute.

If you deem it necessary, I would like for you to assemble the entire Mississippi congressional delegation at a breakfast meeting for Thursday, March 4, 1982, and invite the Secretary of Agriculture to that meeting to discuss this matter. I, along with members of my staff, would join you in explaining our position to the Secretary. The proposal, as presently constituted, should not be approved.

We will be happy to discuss this matter with you further should you need additional information.

Your assistance in this most urgent matter is genuinely appreciated.

Respectfully yours,

Walter Washington

Walter Washington
President

DISTRIBUTION OF 1890 FACILITY FUNDS AMONG THE INSTITUTIONS

Alternate III. Base (750,000) Plus % of FY 1982 Research Program Funds

INSTITUTIONS		(1) BASE	(2) % of Net E-A Funds	(3) Col. 2 as % of 35,250.000.00	(4) Cols. 1 & 2	(5) % of 48 Millio
Alabama:	Alabama A&M University	750,000.00	6.038	2,128,347.13	2.878.347.13	5.997
------------	Tuskegee Institute	750,000.00	5.943	2,095,030.88	2,845.030.88	5.927
Arkansas:	Univ. of Arkansas (PB)	750,000.00	5.206	1,834,979.25	2,584,979.25	5.385
Delaware	Delaware State College	750,000.00	2.082	733,897.21	1,483,897.21	3.091
Florida:	Florida A&M University	750,000.00	4.095	1,443,337.23	2,193,337.23	4.569
Georgia:	Fort Valley State College	750,000.00	6.500	2,291,321.77	3,041,321.77	6.336
Kentucky:	Kentucky State University	750,000.00	7.252	2,556,434.52	3,306,434.52	6.888
Louisiana:	Southern University	750,000.00	4.781	1,685,225.44	2,435,225.44	5.073
Maryland:	University of Maryland (ES)	750,000.00	3.478	1,226,109.39	1,976,109.39	4.117
Mississippi:	Alcorn State University	750,000.00	6.281	2,213,982.92	2,963,982.92	6.175
Missouri:	Lincoln University	750,000.00	6.700	2,361,843.66	3,111,843.66	6.483
N. C.:	N. C. A&T State University	750,000.00	9.400	3,313,493.62	4,063,493.62	8.466
Oklahoma:	Langston University	750,000.00	4.675	1,647,919.91	2,397.919.91	4.996
S. C.:	S. C. State College	750,000.00	5.241	1,847,590.54	2,597,590.54	5.412
Tennessee:	Tennessee State University	750,000.00	7.123	2,510,964.17	3,260,964.17	6.794
Texas:	Prairie View A&M University	750,000.00	9.033	3,184,033.34	3,934,033.34	8.196
Virginia:	Virginia State University	750,000.00	6.172	2,175,488.72	2,925,488.72	6.095
	TOTAL:	12,750,000.00	100.000	35,250,000.00	48,000.000.00	100.000

FAIR AND EQUITABLE FUNDING

Senator **Cochran**. Frankly, the tentative suggestion, if we can call it that, that has been made by the presidents is totally unacceptable to this Senator, and I would urge that every effort be made to approve an allocation of funds that is fair and equitable. I had the good fortune to be able to visit the research facilities at Alcorn State University last year and was very impressed with the quality of work being done there. I am sure the same would be the case at many of the other institutions. But this would cripple the effort that is being made there, and it is in an area of the South which needs support for research and innovative approaches to agriculture and to plant development. I hope that you will give that every possible consideration.

Dr. **Bertrand**. Mr. Chairman, we certainly will. We appreciate the guidance of the committee. It is the responsibility of the Secretary of Agriculture to allocate these funds if they are appropriated. We had asked the university presidents to provide guidance to the Secretary. The meeting Dr. Washington was reporting on was an initial step. It was very much a preliminary meeting to develop an equitable facility fund allocation recommendation. No final decisions have been reached to date. So we appreciate the guidance of the subcommittee.

EXTENSION BUDGET

Senator **Cochran**. Thank you very much for those assurances.

The other day I was at an agricultural fair in my State, and one person came up and said, "I hope you won't approve those Extension Service changes in funding that are being requested by the administration; this will hurt the effort to deliver out to the farm and rural America the technology and the results of research that are being developed." About 20 minutes later another person came up and said, "I have looked at the preliminary suggestions from the administration for reallocating funding in the Extension Service, and I think those changes are just right; that is just what we need." So we get conflicting advice and responses to the changes that are being suggested in funding for the Extension Service.

I do notice with some degree of concern that special projects, such as those mentioned in the prepared statement of Dr. Greenwood and like I mentioned a moment ago at the Rankin County Extension Service, are being reduced. As I understand it, these are projects that would effectively reduce the cost of controlling pests and insects in cotton, and they were quite successful. The average cost per acre for insect control for the 1981 season was $25 as compared to a $48 cost per acre back in 1980, without the benefit of this part-time pest management program. If we do approve the reductions for the Extension Service, I wonder if we are going to indirectly increase costs of operating and managing farms out in the countryside. Will this be a cost-effective budget reduction in view of the elimination of some of these special projects? What is your reaction to that, Dr. Greenwood?

EXTENSION SPECIAL PROGRAMS

Dr. **Greenwood**. The budget that we have proposed, as indicated, provides for level funding in our basic 3b and 3c program. However, I believe you are referring to reductions in our special programs, such as integrated pest management, farm safety, and pesticide impact assessment. Because of our proposed reductions in these special programs, additional State or county funds will be required in order to maintain them. We believe that these reductions will have some impact on the clientele being served.

Also, proposed reductions in Federal administration funds, which finance the support for my staff involved in providing overall leadership and direction to those special programs, would reduce our opportunity to work with States in implementing other innovations.

In terms of our overall budget, sir, it would require the State Extension services to work closely with State and local advisory committees to establish the priorities that must be undertaken, as well as drastically reduce others of lesser immediate need.

INCREASE FOR SMITH-LEVER

Senator **Cochran**. I also have a question about the Smith-Lever account. Why are there no increases requested for Smith-Lever 3b and 3c? These are general funds for Extension. It doesn't seem to take into account any increase even for inflation. What impact is this going to have on personnel?

Dr. **Greenwood**. Budgetary restrictions imposed by the administration to control the size of the Federal deficit in fiscal year 1983 precluded additions to the Smith-Lever 3b and 3c formula funds, not even allowing for inflation offset. Let me reiterate again, that if our State partners are unable to make up for these increases in costs of operation from other fund sources, we will have some reduction in our program efforts in fiscal year 1983. It is our estimate that the proposed budget may result in a reduction of 600 to 700 professional staff nationwide.

4-H PROGRAMS

Senator **Cochran**. What about our activities in the 4-H Club chapters around the country? Will they suffer any reduced level of support?

Dr. **Greenwood**. The 4-H program is basically supported through Smith-Lever formula funds, and any reduction in this area would be a State-by-State determination. I would expect that some reductions could occur in the 4-H program. However, I would like to take this opportunity to point out a very important feature of the 4-H program, and most of our other programs, for that matter. These are the million plus volunteers who greatly multiply and facilitate adoption of Extension programs. These volunteers help us to reach the young people across this country. To some degree, we may be able to reduce the impact of program reductions by increased utilization of volunteers.

Senator **Cochran**. Well, I surely hope that we can work with State agencies and others who are involved in that program to keep it functioning at a maximum level of support for our 4-H

Clubs around the country. I am convinced that that is an important function, and it requires effective support from your Department. I hope we can insure that adequate funds are made available to support those clubs and the work that is being done.

RENEWABLE RESOURCES EXTENSION ACT

Why is it that there is no request for funding of the Renewable Resources Extension Act? There was $2 million appropriated last year for that account, and it appears that your recommendation is to rescind that 1982 funding.

Dr. GREENWOOD. The renewable resources extension program, as proposed, is one that would provide for expanded program effort with the private owner of range and forestland. It would address very important concerns and priorities across the country. However, because of existing fiscal restraints we could not propose funding for the program this year. Let me point out that through the Smith-Lever formula and State and local funds, Extension efforts ranging from $13 to $14 million are being carried out for renewable resources type educational programs. The States, through their priority setting process, would have the opportunity to address these areas and would be funded by the States depending on their relative priority. The fact remains that this program would address a very important concern of this country.

Senator COCHRAN. If our subcommittee decides to continue the funding of this program and if the Senate and Congress go along with us, how much would need to be appropriated to keep it going in the 1983 bill?

Dr. GREENWOOD. The level that had been appropriated by the Congress in 1982 of $2 million would provide for a very small base program in each State. As we have recommended to the Department, of the $2 million $20,000 will go to each State with the remainder being allocated on the basis of the range and forest production potential that exists within each State. Approximately 32 States would receive increased allocations over the $20,000 base because of their higher production potential.

IMPACT OF OTHER REDUCTIONS

Senator COCHRAN. I wonder whether or not you can assess the impact of budget reductions in other USDA agencies on the Extension Service. These would be changes in funding for such agencies as the Agricultural Stabilization and Conservation Service, the Soil Conservation Service, Farmers Home Administration and the Forest Service? Will that have any measurable impact on the Extension Service?

Dr. GREENWOOD. It has been my observation through the years that as programs of other agencies diminish, the demand for Extension programs increases, and more farmers are directly going to local Extension offices seeking counsel and assistance. So, as programs within the Department may be reduced, this may well increase the demands for our programs. I would also point out that as the Department of Energy and other Federal programs such as the Agricultural weather service are terminated or reduced, the demand for educational assistance from Extension Service will increase.

1890 INSTITUTIONS

Senator **Cochran**. I am glad to see that there is a request for an increase of $5,361,000 for the 1890 Colleges and Tuskegee Institute for Extension programs. What form will the increased allocation of funds take in terms of program changes or improvements in the activities of the Extension programs at these institutions?

Dr. **Greenwood**. With the passage of the 1977 farm bill, funding goes directly to the 1890 institutions which have responsibility for fund administration. Some of the increases being proposed would be used to help these institutions cover increased costs of administration.

I would also point out that the 1890 institutions have been focusing their educational efforts toward the limited income farmers, families, and youth within the States in which they operate. So I would expect that some of the increased funding would be used to expand their educational programs with the limited income sector of their State population.

Senator **Cochran**. Thank you very much, Dr. Greenwood.

USE OF MARGINAL CROPLAND IN RESEARCH

I notice in the statement of Dr. Kinney that you are identifying some of the more pronounced concerns and that you are attempting to study them. One of those is identified as the placement of marginal cropland into production. My question is what kind of research activity is being undertaken in connection with that concern?

Dr. **Kinney**. Mr. Chairman, much of our research, if not perhaps all of it, in the soil and water area is directly or indirectly applicable to marginal croplands, because we are concerned with soil fertility; soil erosion; water and wind erosion; with the productivity of that land, and with the availability and efficient use of water. So I think all of our programs in soil and water have some impact on marginal cropland.

I have Dr. Barrows here, who is chief of the soil, water, and air science programs. He could give you a little more information about what our concerns are, specifically with respect to that.

Senator **Cochran**. You may proceed.

SOIL AND WATER RESEARCH IN ARS

Dr. **Barrows**. Thank you, Mr. Chairman. I am glad to have an opportunity to respond to this question.

Our work in soil and water research in the Agricultural Research Service is with all kinds of land. We want to be able to use marginal lands for their best purpose. This may or may not be for cropping. It may be for pastures or for forest or other uses. We are looking very carefully at our fertile lands to insure that we can maintain the productivity of those soils without having soil erosion which will eventually reduce productivity. We are conducting research on more efficient use of water, on improved fertilizer practices, and are conducting research on total farming systems whereby we will be able to utilize these lands in the most efficient manner.

Senator **Cochran**. There is a proposal before the Senate made by Senator Bill Armstrong of Colorado which may be the subject of a hearing in our Agriculture Committee later this year, and which would be a disincentive to put marginal lands in crop production. That is a matter that is going to be considered. I don't know the level of support that exists for that initiative, but nonetheless, it represents a concern that our farm programs may be encouraging the utilization of land that ought not to be utilized for certain farm activities. Would it be the purpose of your work to come up with specific suggestions in connection with legislative changes in farm programs or laws that might have the effect of implementing by national changes and national policies the findings that your research provides to us?

Dr. **Bertrand**. Mr. Chairman, in my role as a member of the Secretary's policy board, I would be expected to speak to such items. Persons like Dr. Barrows are leading the research work, planning the research work that would be responsive to policy directions. If in fact the policies should direct that we place less pressure on our marginal lands and concentrate on the more productive lands and less hazardous acreages, then we would be redirecting the research in that fashion. As I indicated in my statement, one of the strong points of this system we are describing today is its flexibility to be responsive to policy changes.

SOIL EROSION

Senator **Cochran**. A lot of research has been done in the area of erosion and loss of topsoil. You mentioned that, Dr. Kinney, in your statement as a high priority concern. I wonder whether or not the research has been productive or the programs effective in helping solve that very critical problem that is being faced in many parts of the country. I know in some parts of my State we are seeing 20 tons per acre per year of soil disappear because of erosion problems. We will be, of course, talking with the Soil Conservation Service and other agencies of the Department that are involved in that effort later this month. But I wonder at this point can you tell us whether any hope exists for improved techniques or programs that would help solve that very important problem that our country faces?

Dr. **Bertrand**. Mr. Chairman, we have many techniques that will prevent soil erosion. They are known, they are tried, they are proven. In today's economy the farmer must place a lot of pressure on his land. He must use efficient methods, and in so doing he often violates some of the principles of good land management and of soil conservation. In harmony with today's farming practices, we are giving maximum attention in our research program to tillage practices, to systems of farming that will control the water and will control the erosion through minimum tillage or no tillage. Our research is pushing forward that activity that has been proven in many of our soils, but yet to be made totally applicable to some of the soils of the delta and some of the soils of the extreme northern part of the United States, just to mention two areas where we still have a great deal of work to do. But we feel that there is promise ahead through the use of minimum tillage or reduced tillage and proper residue management techniques that will be compatible with the pressures that the individual landowner must cope with in terms of today's economy.

We are also giving a great deal of attention in our Extension program to these kinds of activities. Every State director is increasing the educational activities in this area.

Senator **Cochran**. Well, I surely hope that we can see progress made in instituting techniques that will help solve this problem. It is critical, and this subcommittee is going to be very interested in seeing how it can wisely allocate the funds under the constraints of our budget, so we can see some real progress made in this area.

FAR EAST MARKET RESEARCH FACILITY

We realize that a feasibility study has been completed just recently on the establishment of a Far East market research facility. The report indicates that the Far East market does require more attention. I wonder if any conclusions have been reached about the kind of program that would be instituted with the establishment of a facility of this kind, how many personnel might be involved, and what it would be expected to accomplish if it were funded?

Dr. **Kinney**. Mr. Chairman, we have had that under study for some time now; though we don't have a specific recommendation, we have worked very closely with the Foreign Agricultural Service, APHIS and others to develop that. What we now have are some recommendations or some options. My associate, Dr. Mary Carter, has been very much involved, so I would like her to briefly explain where we are in that study.

Dr. **Carter**. Mr. Chairman, we are in the process of working with the Foreign Agricultural Service to determine exactly what the market needs are for the Far East. We will be doing this by having a response team work with FAS to determine exactly what research needs we have with regard to marketing and what size this facility should be, if it is determined that we need a laboratory in that area of the world.

Senator **Cochran**. I appreciate knowing about the ongoing work and presume that as soon as any conclusions are developed, we will be advised of them. It is obvious that we are going to have to continue to expand our markets and develop new markets for our agricultural commodities. With production at the high level we see it today, there is a tremendous amount of pressure on our market prices because of an inability to sell sufficient quantities of our agricultural products. The Far East seems to be one of the real growth areas in the world. The economy in that area of the world is growing at a very rapid rate, and there is a tremendous opportunity that, I think, we need to fully explore to try to help in the effort to get these market prices up so that farmers can expect to operate their farms at a profit.

ACID PRECIPITATION RESEARCH

I understand that the experiment stations are doing extensive research on acid rain, including its effect on trees, crops, and soils. There doesn't appear to be any request for an increase in funding for State agricultural experiment stations, but there is an increase for acid rain research requested for the Agricultural Research Service. Why is that? Is there a shifting of the research responsibility in effect from the experiment stations in this and other areas?

Dr. THOMAS. There are now some 22 States involved with between 70 and 100 sites in the United States where they are monitoring the acidity of the precipitation. In addition, a substantial number of these States, depending upon their particular skill or site-specific problems, are looking at the effect of acid precipitation on the soil, streams, lakes, wildlife, and all varieties of plants to see if it is as serious as expected and at ways that the problem may be solved. In fact, there actually are some varieties of certain plant species which apparently are not seriously affected by acid precipitation, while some other varieties in the same species are affected because of the difference in the genetic makeup.

The fiscal year 1982 budget proposed increased Hatch Act funding of $800,000 for acid precipitation research; however, no funds were appropriated. There is justification for support of the proposed ARS increase based on ARS' responsibilities involving research dealing with national agricultural problems. As I have said before, some national problems start out locally and become national problems. This is an example where the States did get intensively involved very early because of serious problems in their particular area.

Senator COCHRAN. Will the lack of an increase in funding for the experiment stations bring to a halt the work that is being done in this area?

Dr. THOMAS. I believe it will not. It may, perhaps, keep them from meeting increased costs due to the inflationary factor. I am sure, because of the importance of this research, these stations will continue to work vigorously on this program.

I would also like to mention we are grateful to your State for some leadership we have in this area.

ACID PRECIPITATION

Dr. KINNEY. Could I make a comment, Mr. Chairman?

Senator COCHRAN. Yes, Dr. Kinney.

Dr. KINNEY. I think it is important we make it clear that acid precipitation is one of those problems that neither the States nor the Federal research establishment alone can solve. So I don't think there is any proprietary justification there. There are aspects of it that we in ARS can address in our laboratories. There are aspects such as the monitoring work that needs a widely dispersed input. I think it needs to be a cooperative activity. The funds that were requested for ARS were specifically targeted for areas of research at three locations, so they are different than the programing that might have been implemented if the funds had gone to the States. But I want to emphasize the Federal-State cooperative effort.

Senator Cochran. What kind of research program will be undertaken by ARS with these funds?

Dr. Kinney. As I recall, at Raleigh, N.C., we will be evaluating the effect of acid precipitation on plant growth and plant productivity. The effort at Beltsville, Md., will be concerned primarily with evaluating the combined effects of acid precipitation, ozone, and other air pollutants on plants and soils. And, the research team at University Park, Pa., will be developing methods for assessing the long-term impact of acid precipitation on soil productivity.

ANIMAL HEALTH RESEARCH

Senator Cochran. In the area of animal health research, do you feel that we get more research for our dollar by using the cooperative agreement approach by ARS as compared with the animal health and disease formula program which requires State matching dollars?

Dr. Thomas. Animal health research is funded through several programs in CSRS including the Hatch Act, 1890 colleges, and animal health and disease formula funds and special research grants. The research carried out under these programs focuses on the expertise of the various institutions, the emphasis of grants for certain high priority areas, and other specific provisions of the authorizing legislation on animal health and disease programs. This research complements the research carried out by ARS, in a coordinated Federal-State system. It is not a matter of getting more or less research, but rather coordinated programs of the system addressing the research needs.

Senator Cochran. Do you feel then that the formula program may be phased out in preference to the ARS approach?

Dr. Thomas. In the budget that is before you, many decisions had to be made within the financial restrictions we must share. No funds are proposed for the animal health and disease formula program. The budget provides for a national effort and basic research initiations in animal health through increased support for these areas in ARS.

ROLE OF NATIONAL LIBRARY FOR FARMER

Senator Cochran. Dr. Farley, some may wonder what the National Agricultural Library really does to help our farmers. What do you say when they ask you that question? What is a good answer?

Dr. Farley. I say that we very willingly help those farmers who come to us. We are basically a research library which serves the agricultural scientists of this country, and the world for that matter. We also serve the intermediary, the Extension agent. It is our job to plug them into the agricultural information in the world. Again, I say we heartily welcome farmers, and we get many questions coming to the library. Some of these have to be referred to ARS scientists.

NAL INCREASE

Senator COCHRAN. What percentage increase does this $100,000 additional money for the library represent?

Mr. VICTOR. What percent of increase?

Senator COCHRAN. What percent is that an increase from last year's level?

Dr. BERTRAND. Mr. Chairman, the total increase request for the Library is $737,000, which is a 9 percent increase; $100,000 of this would be for national cost-sharing activities with land-grant libraries.

HATCH ACT INCREASE

Senator COCHRAN. The budget request includes an increase of only 2.4 percent for the Hatch Act but a 40-percent increase for competitive research grants. The increase under the Hatch formula program is proposed at less than the increased cost of research, but you are proposing substantial program growth for the grants. Why has the grant program been favored?

Dr. THOMAS. The competitive research grants program is a relatively small new program, and this makes the proposed increase look substantial when expressed as a percent. This program is strongly supported because of its emphasis on basic research. We are requesting a funding level which will provide an adequate base, so that these basic research grants can have a more significant impact. It does offer the opportunity for participation by scientists throughout the entire U.S. scientific community who have outstanding expertise in this area.

Senator COCHRAN. The 1981 farm bill stipulates that 25 percent of the funds in the research area be provided for the Hatch Act. It does not appear we have reached this amount in this budget request. Would you indicate whether or not it appears you will be able to meet that amount?

Dr. THOMAS. This stipulation becomes effective in fiscal year 1984, and I am sure we will try to meet that requirement.

Senator COCHRAN. If we appropriated the money, I guess we can make you spend it.

Dr. THOMAS. There have been some preliminary discussions on how best to achieve this level during periods of fiscal constraints. Of course, no decision has been made at this time.

COOPERATIVE FORESTRY RESEARCH

Senator COCHRAN. I think Senator Stennis may have mentioned the cooperative forestry research in his comments or questions. You are proposing a decrease of $1,224,000 for cooperative foresty research. What effect, in your judgment, will this reduction in spending have on this program?

Dr. THOMAS. Since these funds are managed by the 60 institutions participating in the McIntire-Stennis program, accommodation to the reduction will take a variety of forms including reduction in the numbers of scientists, reduction in graduate student assistance and reduction in research activities. The reduction in assistantships is unfortunate, because most new forest scientists are trained through that particular mechanism. This reduction will probably have the largest effect in the South and the Western regions in which the vitality of the forest industry is a major portion of the economy, at least in a number of States.

ANIMAL HEALTH AND DISEASE RESEARCH

Senator **COCHRAN**. The funds that are available for animal health and disease research have been eliminated in this budget request. This is the veterinary science research activity.

Dr. **THOMAS**. Yes, sir.

Senator **COCHRAN**. How is this research going to be funded? Will it be up to individual schools of veterinary medicine or what will the effect be if we don't provide any funding for that account?

Dr. **THOMAS**. The funding for special research grants to support animal health research will continue at $7.2 million, a level of funding identical to last year. There will also be Hatch funds going into animal health research, especially in those States where they do not have veterinary schools but do have veterinary science departments. We presume that, except that funds have not kept up with inflation, those State agricultural experiment stations which have given animal health research a high priority will continue funding animal health research through the use of regular Hatch funds and State appropriations.

Dr. **KINNEY**. Mr. Chairman, may I make a comment?

Senator **COCHRAN**. Surely.

Dr. **KINNEY**. Earlier you had raised the question about the animal health research and the States' ability to do research versus others. Again, I would like to make the point that we do have a system, a State-Federal system, that is highly functional, especially in the animal health area. And we do have a need in the case of brucellosis or blue tongue or other diseases, for a laboratory that has the unique capacity, the animal and scientific expertise, and so forth, to concentrate on the major efforts on those diseases that are of importance, such as brucellosis, blue tongue, and pseudorabies. But we don't claim for 10 seconds to have all the expertise. There are many veterinary colleges and experiment stations that have unique expertise, so it has to be a joint effort. This $4 million in the ARS budget request, a substantial amount of that, probably up to 50 percent will be used in extramural research. Some will be used in-house, such as at the National Animal Disease Center or at our Denver laboratory, but much will be used to accomplish specific parts of the research at veterinary colleges or State universities.

OLD WEST REGIONAL COLLEGE OF VETERINARY MEDICINE

Senator **COCHRAN**. The committee last year had a request made for providing funds for a new school of veterinary medicine out in Nebraska. Is there any request in this budget for such a facility?

Dr. **BERTRAND**. No, sir, there is not. We did conduct a feasibility study during the months of September, October, and November. That feasibility study indicates there is a need for a veterinary college to serve the Old West region, but we did not ask for funds to initiate it in this budget.

ARS AND CSRS BUDGETS

Senator **Cochran**. Of the budgets for the two research programs—Agricultural Research Service and Cooperative State Research Service—the ARS budget appears to have been given priority in the 1983 request. Why is this, Dr. Bertrand?

Dr. **Bertrand**. Mr. Chairman, the concept we have had throughout the preparation of this budget among the agencies and our cooperators in the States has been one of a balanced program in which ARS and the State programs would move in unison. As this budget moved through the deliberative process that occurs from the initial planning stages to the time it was submitted as the President's budget, many changes occurred that shifted emphasis. We feel that it is necessary to provide ARS an opportunity for some real growth. The OTA study indicates that ARS funding decreased by 3 percent in constant dollars from 1966 to 1979, and ARS has barely kept even with inflation since 1979. So we feel that it is necessary to give ARS an opportunity to have some real growth. We only wish that this budget would permit a comparable amount of growth in the entire system.

SUBMITTED QUESTIONS

Senator **Cochran**. Thank you very much. I want to express my sincere appreciation to all of you for being here, for helping answer our questions, and presenting us with your observations about this budget request. We will have some additional questions, and if we submit questions in writing to you, I hope you can respond to them so we will have a complete record for the committee to review before we mark up this bill.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

SCIENCE AND EDUCATION

QUESTIONS SUBMITTED BY SENATOR COCHRAN

RESEARCH & EXTENSION

Question: How much does the Department of Agriculture spend on agriculutral research and extension?

Answer: Total funds available for research and extension within the Department of Agriculture is currently $1.142 billion.

Question: How much is spent by other Federal agencies; how much by States; and how much by the private sector?

Answer: Current information suggests that in 1981 federal departments and agencies other than USDA devoted approximately $515 million to domestic research programs related to food and agriculture. About 65% of the work was conducted through contracts and grants with universities and other institutions. The remaining 35% was conducted in federally owned and operated laboratories. In 1980 the Cooperative State Research Service - USDA provided $176.9 million to land-grant universities, forestry schools, 1890 colleges, and other cooperating institutions. Non-Federal support for these same institutions was about $593 million. In 1979 private industry spent approximately $1.8 billion on research and development related to agriculture and forestry. About one-half was oriented toward farming inputs, i.e., pesticides, drugs, and farm equipment and machinery. The other one-half was oriented toward post-farming utilization research, i.e., food and fiber processing and packaging. The primary motivation for R&D expenditures in the private sector is to gain competitive advantage for the product a company is selling.

Question: How much duplication or overlap of research efforts is there between USDA and these other sources? Other agencies of the Department have funds to conduct research. How does this relate to your responsibilities?

Answer: While no hard and fast division of responsibilities is possible in conducting research, the general boundaries in responsibilities and programs between the different public and private performers of agriculutral research is clear. Other Federal agencies conduct research in support of their missions and goals which can be and are quite different from USDA's missions and goals. These programs may rely on similar underlying scientific disciplines or even focus on somewhat similar subject matter, but are developed to address different research questions, problems, and overall policies and objectives.

State performers generally address research problems of local, State, regional, and national significance whereas USDA programs address issues and problems of national, international, and broad societal concern. Private performers generally address research which yields immediate commercial applications whereas USDA programs to a great extent address contributions to the fundamental base of scientific knowledge needed in agriculture. Thus the research programs of the many different performers, while addressing sometimes similar overall subjects, tends to be quite different in terms of overall scope, nature of the research, and purposes. Therefore the mix of these programs, in total, is viewed as complimentary rather than duplicative.

Other agencies of the Department also conduct research. Again these programs complement rather than overlap on efforts. For example, the Agricultural Research Service has no or minimal programs in economics or forestry research because these kinds of research are addressed by the Economics Research Service, the Forest Service, the McIntire-Stennis Cooperative Forestry Program, and Hatch Act Forestry Program of the Cooperative State Research Service.

To help insure coordination and complimentarity of research programs among the different performers, a number of specific mechanisms have been developed in recent years. These include the regional and national planning committees of the Joint Council on Food and Agricultural Sciences made up of representatives of Federal, State, and private research performers; the Food, Agricultural, and Forestry Research Subcommittee of the Federal Coordinating Committee on Science, Engineering, and Technology made up of representatives of Federal research performers; and the Science and Education Committee of the USDA Secretary's Policy and Coordinating Council made up of representatives of all USDA research components and action and regulatory agencies. These mechanisms, as well as other means, have proven helpful in coordinating research programs and avoiding unnecessary overlap. Nonetheless, this is an issue of extreme concern and one that receives diligent attention and efforts to constantly monitor and improve our performance.

Question: Is the national agricultural science system capable of responding to urgent national needs and of stimulating innovations in technology that can lead to productivity growth?

Answer: The national agricultural science system consisting of the Federal-State partnership, as well as private industry, is capable of responding to urgent national needs and of stimulating innovation. It aims to retain flexibility, high expertise, and expenditure focus on priority problems. However, the long-term funding trend has impacted its capability, raising significant questions as to: has the extent of response capability been lowered; has its response time been increased; and can its response activities simply hold current productivity levels—whose increase rate is declining— or can it truly produce needed innovative technology to reverse the decline trend? The system is currently redirecting towards more basic studies designed to replenish the shrinking fundamental knowledge base, one well-recognized source of applied research leads that bolster technological innovation. Although science can provide no guarantees that innovative technologies will emerge from these efforts, the record says that there is a good probability they will. The potential for innovation to enhance productivity to emerge from, for example, gene manipulation work—genetic engineering— would appear high. If the system is looked on as an investment, then we should provide the highest odds of return in productivity enhancement possible. It seems reasonable to assume that the greater the effort expended, the higher the probability of return on the investment.

Question: With the tight constraints, it is, undoubtedly, necessary that USDA assess priority needs. Will you please describe the procedures you employ in setting priorities and determining individual project funding levels.

Answer: The development of budgets by the S&E agencies begins with the solicitation of priority recommendations from a variety of sources, both inside and outside of USDA. This is usually done approximately six to eight months before the Science and Education (S&E) agencies' budgets are submitted in July to the Department of Agriculture.

The priority recommendations of the States, as well as the Federal agencies, are analyzed and the results were utilized in conjunction with a series of three budget development meetings led by the Director of Science and Education. These meetings include the Administrators of the Agricultural Research Service, Extension Service, Cooperative State Research Service, the Director of the National Agricultural Library, and representatives of Land-Grant and other universities. Representatives of other USDA research agencies, such as the Forest Service and Economics Research Service, also attend to improve coordination of research planning.

At the first meeting in which representatives of the States participated, the priorities were examined and a consensus reached on the areas of priority emphasis for budget development and the approximate funding levels for each. Staff teams were then instructed to prepare a "special analysis" for each area of emphasis. These special analyses provide information on thrusts, current efforts—if any— needs, anticipated use of funds, and expected results if the priority area is funded.

At the final meeting of the budget development group, the special analyses reports were presented and reviewed by the USDA and Land-Grant participants and final recommendations made to the Director of S&E and the agency administrators on priority areas and funding levels for the upcoming budget. Final decisions were made later by the Director, S&E, prior to the budget submission to the Department of Agriculture.

Question: Please provide for the record a list of the research programs in order of priority for ARS, CSRS, Extension and Higher Education.

Answer: During development of priorities for the FY 83 budget request ARS, CSRS, ES, and Higher Education were components of the Science and Education Administration—S&E— Thus the priorities for the FY 83 budget were developed jointly rather than by individual units. The following list of increases was submitted to the Department by the Director in the FY 83 budget request. It was based on a ranking of the total increase request by each of the S&E Agency Administrators with final adjustments by the Director.

Program Maintenance
Basic Research--Crop Productivity
Basic Research--Animal Productivity
Integrated Reproduction Management--Animal Productivity
Plant Germplasm Resources--Crop Productivity
Basic Research--Crop Protection
Removing Productivity Barriers--Crop Productivity

Integrated Pest Management--Crop Protection
Animal Health-Specific Disease Research and Extension--Animal Protection
Water Resources--Land and Water Resources
Resources Conservation Act Support--Land and Water Resources
Food Losses and Marketing Efficiency--Food Protection, Distribution and Exports
Water Resources--Crop Productivity
Integrated Forage-Livestock Management Systems--Animal Productivity
Increase for Section 1433, PL 95-133 Animal Protection
Energy--Crop Productivity
Pesticide Impact Assessment--Crop Protection
Animal and Plant Health Inspection Service Support-- Animal Protection
Renewable Resources Extension-Range--Natural Resources: Forest Range, and Wildlife
Food and Agricultural Expertise Development
Minor Use Drugs--Animal Protection
Nonpoint Pollution--Land and Water Resources
Animal and Plant Health Inspection Service Support--Crop Protection
Support Joint Council and Evaluations--Crop Productivity
Programs in Support of Exports--Food Protection, Distribution, and Exports
Renewable Resources Extension-Forest and Wood Products--Natural Resources: Forest, Range, and Wildlife
Mission-Oriented Fundamental Research--Human Nutrition
Marketing Assistance--Economics, Marketing Education, and Farm Management
Renewable Resources Extension-Multiple Use--Natural Resources: Forest, Range, and Wildlife
Range Research--Natural Resources: Forest, Range, and Wildlife
Aerospace Technology--Land and Water Resources
Renewable Resources Extension-Wildlife and Fisheries--Natural Resources: Forest, Range, and Wildlife
Direct Support for Action Agencies--Food Quality and Safety
Forest Resources--Natural Resources: Forest, Range, and Wildlife
Nutrition and Aging--Human Nutrition
Aquaculture--Animal Productivity
Export Marketing-Economics--Economics, Marketing Education, and Farm Management
Forest Basic, Water Resources, and Energy Research--Natural Resources: Forest, Range, and Wildlife
Support for Agricultural Marketing Service--Food Quality and Safety
Nutrition during Pregnancy, Lactation and Infancy--Human Nutrition
Natural Rubber; Guayule--Crop Productivity
Nutrition Requirements, Composition and Bioavailability--Human Nutrition
Energy in Agriculture--Family and Consumer Resources
Farm Financial Analysis and Computer Technology--Economics, Marketing Education, and Farm Management
Tropical, Subtropical Research--Crop Productivity
Colorado River Salinity--Land and Water Resources
Support for Federal Grain Inspection Service--Food Quality and Safety
Management Information Systems--Technical Information Systems

Meet Good Laboratory Practice Regulations--Building and Facilities
New Initiatives in Home Economics--Family and Consumer Resources
Department of Defense Support--Animal Protection
Nutrition Status Assessment--Human Nutrition
Post Harvest Technology: New Technologies for Preservation/ Protection--Food Quality and Safety
Energy-Biomass Preparation and Conversion--Technology and Safety of Non-Food Agricultural Products
Expanded Food and Nutrition Education Program--Human Nutrition
Replace Obsolete Scientific Equipment--Building and Facilities
Transportation--Animal Productivity
Food and Fiber Education, Youth 4-H--Youth Development, 4-H
Acid Rain--Land and Water Resources
Critical Issues System--Technical Information Systems
Energy Retrofit In-House Facilities--Building and Facilities
Production Technology and Farm Management--Economics, Marketing Education, and Farm Management
Regional Research and Extension--Community and Rural Development
Nutrition Education Research-Information and Education--Human Nutrition
Research Support for Agricultural Marketing Service--Non-Food--Technology and Safety of Non-Food Agricultural Products
Offset A-76 Contracting Costs--Building and Facilities
Rural Housing Research--Community and Rural Development
Youth-Expanded Food and Nutrition Education Program--Youth Development, 4-H
National Arboretum Renovation--Building and Facilities
Offset Standard Level User Charges--Building and Facilities

Question: Please provide for the record for ARS, CSRS and Extension a program breakout of agency request to Department, the Departmental request to OMB, and the OMB allowances.

Answer: We will be glad to furnish that information. The information follows:

UNITED STATES DEPARTMENT OF AGRICULTURE

Statement of Increases and Decreases in Budget Authority,
1983 Budget Estimates Compared with 1982 Estimates

Agency or Item	1982 Estimate	1983 Estimate	Increase or Decrease	1983 Agency Estimate	1983 Department Estimate
Agricultural Research Service:					
Expanded basic agricultural research...	195,327,000	204,927,000	+9,600,000	216,092,000	202,452,000
Animal health and protection research..	19,468,000	23,468,000	+4,000,000	24,964,000	24,268,000
Range and pasture research	6,232,000	6,732,000	+500,000	5,806,000	7,232,000
National plant germplasm resources	9,302,000	13,102,000	+3,800,000	16,561,000	12,222,000
National Arboretum security	385,000	635,000	+250,000	885,000	385,000
Tropical and subtropical research	3,715,000	735,000	-2,980,000	6,025,000	735,000
Research on acid precipitation	110,000	979,000	+869,000	350,000	110,000
Research on the conservation and use of land and water resources	11,803,000	16,903,000	+5,100,000	7,383,000	14,703,000
Human nutrition research	25,206,000	26,206,000	+1,000,000	32,605,000	26,206,000
All other	154,130,000	174,861,000	+20,731,000	233,376,000	203,905,000
Subtotal, Agricultural Research Service	425,678,000	468,548,000	+42,870,000	544,047,000	492,218,000
Buildings and Facilities:					
Human Nutrition Research Center, Boston, Massachusetts	5,896,000	--	-5,896,000	--	--
Fever Tick Facility, Mission, Texas.	700,000	--	-700,000	--	--
Human Nutrition Research Center, Grand Forks, North Dakota	2,000,000	--	-2,000,000	--	--
All other	--	--	--	88,600,000	--
Subtotal, Buildings and Facilities	8,596,000	--	-8,596,000	88,600,000	--
TOTAL, Agricultural Research Service	434,274,000	468,548,000	+34,274,000	632,647,000	492,218,000

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UNITED STATES DEPARTMENT OF AGRICULTURE

Statement of Increases and Decreases in Budget Authority,
1983 Budget Estimates Compared with 1982 Estimates

Agency or Item	1982 Estimate	1983 Estimate	Increase or Decrease	1983 Agency Estimate	1983 Department Estimate
Cooperative State Research Service:					
Payments under the Hatch Act	141,109,000	144,495,000	+3,386,000	174,942,000	165,886,000
Cooperative forestry research	12,031,000	10,807,000	-1,224,000	15,141,000	12,981,000
Payments to 1890 Colleges and Tuskegee Institute	21,492,000	21,674,000	+182,000	26,248,000	24,885,000
Special research grants	23,141,000	22,666,000	-475,000	21,187,000	22,946,000
Competitive research grants	16,320,000	22,880,000	+6,560,000	32,420,000	26,000,000
Animal health and disease research Section 1433	5,760,000	—	-5,760,000	17,686,000	—
Federal administration (direct appropriation)	1,363,000	781,000	-582,000	1,989,000	1,781,000
1890 Facilities	--	8,800,000	+8,800,000	10,000,000	10,000,000
TOTAL, Cooperative State Research Service	221,216,000	232,103,000	+10,887,000	299,613,000	264,479,000

UNITED STATES DEPARTMENT OF AGRICULTURE

Statement of Increases and Decreases in Budget Authority,
1983 Budget Estimates Compared with 1982 Estimates

Agency or Item	1982 Estimate	1983 Estimate	Increase or Decrease	1983 Agency Estimate	1983 Department Estimate
Extension Service:					
Smith-Lever:					
For Sections 3b&c	219,376,000	219,376,000	—	254,459,000	238,222,000
Section 3d:					
Pest management	7,531,000	7,067,000	-464,000	10,513,000	8,031,000
Farm safety	1,020,000	—	-1,020,000	—	—
Energy	324,000	285,000	-39,000	347,000	324,000
Urban gardening	3,000,000	—	-3,000,000	—	—
Non-point source pollution	702,000	—	-702,000	1,702,000	1,404,000
Food and nutrition education	60,354,000	60,354,000	—	66,579,000	61,354,000
Pesticide impact assessment	1,850,000	1,716,000	-134,000	2,420,000	1,950,000
1890 Colleges and Tuskegee Institute	12,241,000	17,602,000	+5,361,000	14,365,000	13,044,000
Renewable Resources Extension Act	2,000,000	—	-2,000,000	10,000,000	—
D. C. extension	983,000	983,000	—	1,052,000	1,039,000
Federal administration and coordination	6,321,000	4,528,000	-1,793,000	7,806,000	7,043,000
All other	—	—	—	12,050,000	—
TOTAL, Extension Service	315,702,000	311,911,000	-3,791,000	381,293,000	332,411,000

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UNITED STATES DEPARTMENT OF AGRICULTURE

Statement of Increases and Decreases in Budget Authority,
1983 Budget Estimates Compared with 1982 Estimates

Agency or Item	1982 Estimate	1983 Estimate	Increase or Decrease	1983 Agency Estimate	1983 Department Estimate
National Agricultural Library:					
National cost-sharing to regionalize indexing, document delivery, information creation, and dissemination	—	100,000	+100,000	500,000	150,000
Integrated reproduction management system	—	50,000	+50,000	300,000	50,000
All other	8,279,000	8,866,000	+587,000	11,395,000	9,273,000
TOTAL, National Agricultural Library	8,279,000	9,016,000	+737,000	12,195,000	9,473,000

Question: During budget development, did USDA solicit any views from persons outside USDA?

Answer: Views were solicited prior to and during budget development from many sources outside USDA, including 57 scientific professional agricultural societies and organizations, representatives of State agricultural experiment stations, colleges of 1890, forestry and veterinary schools, the National Agricultural Research and Extension Users Advisory Board, and the Joint Council on Food and Agricultural Sciences.

Question: It is my understanding that the GAO is studing the formula-funded programs at State agricultural experiment stations. Has the Department given consideration to changing the formula, which is currently based mainly on population, to a formula based on a State's capacity to produce food and fiber?

Answer: During the review of the 1981 Farm Bill, the Department examined all of the formula provisions of the acts that authorize funding for research. No changes in formula distribution were proposed for these funded programs.

TECHNICAL ADVISORY COMMITTEE

Question: The USDA recently chartered a Technical Advisory Committee that will utilize subcommittees of scientists to review and evaluate research proposals submitted for the Competitive Research Grants Program and for the Special Research Grants proposals that will be awarded competitively.

Are there long delays in getting Department clearance for the scientists that were proposed for these panels which would result in the agency having problems in getting the grants awarded? Please describe the clearance process for the scientists, including the various kinds of clearances and level of clearances required. Also, detail the actions your office has taken to expedite the clearance process.

Answer: This is the first year the Department is utilizing peer panels of scientists under a Technical Advisory Committee charter. This requires the peer panel members to be approved at the Secretary level instead of at the Agency level.

The program managers for each research area, for which funds are available, prepare a list of scientists that have the scientific expertise necessary to evaluate the research proposals. This list is based on recommendations from professional societies and as a result of contacts by the program managers to members of the scientific community. This list is then submitted through the Director of Science and Education to the Assistant Secretary for Administration for approval.

Every effort is being made to expedite administrative handling necessary in constituting this Committee in this first year of operation.

PERSONNEL

Question: We are aware the FY 1983 95 FTE for CSRS and the 145 FTE for Extension Service include positions for the support services that are provided by S&E Management Services. Please provide a listing of all positions and FTE effort devoted to support services to Cooperative State Research Service and to Extension Service by Science and Education Management Service. Also, provide the total cost of staff time for the services provided to CSRS and to the Extension Service by S&E Management Services for FY 1981 and estimated costs for FY 1982 and FY 1983.

Answer: Our present arrangement of centralized administrative management requires pooled services and skills. Individuals in these positions provide a number of different services for a variety of clients. Their time is thus distributed across the Agencies which are served. For this reason, individual positions cannot be identified as providing sole service in support of Cooperative State Research Service—CSRS— Extension Service—ES— Agricultural Research Service—ARS— or National Agricultural Library—NAL—alone. Although we are unable to provide a line by line list of positions exclusively supporting CSRS and ES, it is possible to identify the savings that this centralized approach gives us. The economy—in terms of positions saved— is clear when we compare our FTE for 1983 with the arrangement in 1977 before Administration Management support was centralized.

In FY 1983, there is an anticipated 33% reduction in size from the decentralized arrangement which existed in 1977. This economy is a total savings of 181 FTE. The personnel function shows a 30% reduction from 1977—a savings of 25 positions— Most of the savings—65% of the total—occur in other management support where centralizing saves 118 positions, a reduction of 37% compared to decentralization in 1977. The chart below displays this comparison.

CHART 1

COMPARISON OF FTE SUPPORTING ADMINISTRATIVE MANAGEMENT FUNCTIONS; 1977 AND 1983 (CSRS, ES, ARS, NAL)

	1977	1983	Difference	% Reduction
Personnel, Budget and Fiscal				
Personnel	83	58	- 25	30%
Budget and Fiscal	145	107	- 38	26%
	228	165	- 63	28%
Other Management Support[1]	319	201	-118	37%
TOTAL	547	366	-181	33%

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[1] Includes such functions as facilities management, real property, personal property, ADP services, contracts and procurement, engineering and architectural services, acquisitions and supplies, etc.

Chart 2 shows the amount that CSRS and ES contribute to the "shared cost" which finance the centralized and more economical effort.

CHART 2

CONTRIBUTIONS TO SHARED COSTS

	FY 1981 Actual	FY 1982 Estimate	FY 1983 Estimate
Cooperative State Research Service	1,216,100	1,100,000	1,016,500
Extension Service	2,294,900	1,244,000	1,037,000

[1] The "shared cost" components encompass the following staff elements: Office of Director; Information Staff; Policy Analysis and Coordination Staff, and Joint Council and Users Advisory Board Staff; Special Programs (dissolved in FY 1982 as an organizational enitity); Higher Education (slated to become part of the Agricultural Research Service in FY 1983); and the divisions and staffs of Administrative Management. The table excludes CSRS and ES contributions for such non-S&E management staff costs as the "Greenbook" budget advisory charges for reimbursable activities, management council cost programs, and working capital fund.

PERSONNEL

Question: Please submit for the record, the S&E budget developed for each agency that was submitted to the Department and the Department's Budget request for each agency submitted to OMB.

Answer: An additional 133 permanent full-time positions was included in our FY 1983 Budget request to the Department consisting of 117 for ARS, 10 for CSRS, 6 for ES, and 0 for NAL. The Departmental budget request to OMB included an increase of 31 permanent full-time positions for S&E agencies, all were requested for ARS.

HIGHER EDUCATION

Question: How is the USDA planning to assume its responsibility as the lead agency for higher education in agriculture as described in the 1981 Farm Bill?

Answer: The Department's Office of Higher Education will encourage interaction between the producers and users of graduates of higher education in the food and agricultural sciences to encourage the development of an adequate supply of scientists and professionals. This will involve extensive interaction with representatives of business and industry, colleges and universities, professional organizations, government and the public.

The Office of Higher Education will conduct a number of activities in assuming its responsibilities. These include: continuing assessment of the supply of and demand for graduates of higher education in the food and agricultural sciences; designing a comprehensive system for collecting and analyzing national statistics on higher education in the food and agricultural sciences; encouraging the exchange of scientists between industry, universities, and government; recruiting outstanding students, particularly females and minorities, into the food and agricultural disciplines; expanding opportunities for educational enrichment of college and university students; and responding to requests from cooperators for information requisite to educational planning and resource allocation.

Question: How are you dealing with this in FY 1983?

Answer: Encouraging the exchange of scientists among universities, industry, and government and the development of a comprehensive data base for food and agricultural sciences program planning and administration are the significant thrusts which are projects for FY 1983.

Science and Education Coordination Office

Question: Last year's Senate Report (97-248) directed you to reevaluate the size and function of this unit. Will you please provide the results of your evaluation for the record.

Answer: The results of the evaluation were provided to the Honorable Mark O. Hatfield in a February 18, 1982, letter from Anson R. Bertrand, Director, Science and Education. The response in pertinent part was as follows:

> "As the Committee noted, the Science and Education Coordination Office was reduced from 104 to 35 positions in June 1981. This resulted in reassigning 69 positions to the S&E agencies. I have reexamined the remaining staff and its functions in light of 1) delegations to S&E agencies, and 2) essential requirements to coordinate the agricultural sciences in the U.S. I am implementing plans that will further reduce the size of this staff. This decision will release 11 additional positions to the agencies, some of which will involve reassignments. These two reductions will release 80 positions to the agencies, reduce the size of this staff by 77 percent, and delegate to the agencies most of the responsibility for interagency planning and coordination at the project and program levels. The remaining staff will address policy analysis and coordination matters of special importance throughout the agricultural science and education system."

The implementation plans referenced above are substantially completed. Reassignments of all affected employees will be accomplished within the next few weeks.

SCIENCE AND EDUCATION INFORMATION STAFF

Question: Please outline the results of your reevaluation of the Science and Education Information Staff as directed in Senate Report 97-248.

Answer: When the Science and Education Administration was dissolved in June 1981, 69 of the 89 positions on the S&E Information Staff were released to the agencies, leaving 20 positions at the S&E level. In response to Senate Report 97-248, these 20 positions have now been reevaluated to meet the Report's recommendations of 10 positions at the S&E level. Accordingly, several information cross-cutting activities have been eliminated; the staff has been reduced to 9; and 11 additional positions—making a total of 80 out of 89—have been released to the agencies. We believe the remaining S&E staff is at a minimum number if it is to carry out information and coordination activities that deal with the entire agricultural science and education system and are essential at the S&E level.

AGRICULTURAL RESEARCH SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

TROPICAL AND SUBTROPICAL RESEARCH

Question: To what extent will ARS do research in this area? At what level?

Answer: The Agricultural Research Service will continue to perform tropical-subtropical research within its inhouse locations with the balance of funding appropriated for this purpose - $735,000. These funds will be used for increased tropical agricultural research on projects such as the following, on which our scientists are already engaged: tropical fruit commodity treatment for Mediterranean fruit fly, taxonomic classification of tropical fruit flies, nitrogen fixation by Azolla, evaluation of rice germplasm for environmental stress tolerance, development of alfalfa germplasm for use in the tropics, cryogenic preservation of tropical germplasm, preservation and evaluation of sugarcane germplasm, evaluation of okra as a potential protein and oil crop for the tropics, development of tropical bean and cowpea germplasm, protein improvement of tropical food and grain legumes, and evaluation of Senepol beef cattle crosses for performance and adaptation to subtropical and tropical conditions.

PLANT GERMPLASM RESEARCH

Question: We note there is a proposed $3.8 million increase to support the National Plant Germplasm System. How will these additional funds be used?

Answer: These additional funds will be used for the following functional activities: Acquisition of germplasm, $335,000; Maintenance, $1,195,000; Evaluation; $1,495,000 Enhancement, $675,000; Monitor genetic vulnerability, $100,000.

Question: What is the condition of the building presently housing the small grains collection?

Answer: In terms of temperature and humidity control, which are very important in maintaining seed viability at desirably high levels, the small grains building has been brought up to acceptable standards through building renovation and installation of additional refrigeration units. However, the building was not designed to serve as a gene bank and is therefore energy inefficient and lacks the ancillary facilities for seed handling and viability testing. Also, the small grains building is now fully utilized, and there is no unused storage capacity to accommodate new collections.

Question: Is the safety of the collection in danger?

Answer: It is difficult to assess genetic changes which may occur because of even rather small fluctuations in temperature and humidity. Such fluctuations occur in inadequately insulated storage rooms. Certainly, the collection would be in less danger in a properly designed storage facility. We do not, believe however that elements of the collection are in danger of being lost.

Question: Has any consideration been given to construction of a new facility to house this collection?

Answer: Yes, architectural and engineering requirements have been made for such a new facility.

Question: Has a location for this facility been discussed?

Answer: Several possible locations for a new small grains facilility have been discussed. We are in the process of having an objective assessment made of these potential sites by a site review group using predetermined, weighted sets of criteria as a basis for ranking their suitability for this important collection.

Question: What would be the cost of such a facility:

Answer: Based on the studies referred to the cost of such facility would be about $2 million.

ANIMAL HEALTH RESEARCH

Question: You are requesting an increase of $4 million for animal health and protection research. On page 60 of the Explanatory Notes, it is stated, "The research will be primarily done via cooperative agreements with the universities." How much overhead will ARS charge against the $4 million?

Answer: The ARS Indirect Program Support Rate is 14 percent. This is the assessment that will be applied to this proposed increase.

Question: How much of the $4 million after overhead do you expect to utilize for cooperative agreements to the universities?

Answer: We estimate 58 % of these funds would be utilized for Cooperative Agreements with Universities amounting to $1,978,000 on a net base.

Question: How will you select the universities that will receive cooperative agreements?

Answer: Universities with expertise in the funded area are identified by in-house Federal scientists who are presently working in the specific research area and may be requested to submit a proposal. Universities that have expertise in the identified problem area may submit unsolicited proposals to ARS.

All proposals are reviewed for scientific merit by ARS research leaders, program managers, and other knowledgeable scientists. They are then selected on their potential contribution to the national program of research and ARS assigned mission and responsibilities.

When negotiations are completed an Authorized Departmental Officer's Designated Representative, an in-house Federal research scientist, is assigned to work directly with the cooperating scientist at the university in question.

FAR EAST MARKET RESEARCH FACILITY

Question: The Department recently (January) completed a report of the feasibility of establishing a Far East Market Research Facility. The report indicated that the Far East Market does require more attention in order to institute a shorter response time to problems and to prevent problems from developing. Would you please outline for the record your plans for instituting such a program and facility, i.e., what kind of program will be instituted, how soon, personnel involved, and how it will be financed, etc.

Answer: The Department now is drafting a multiagency plan for implementing the recommendations of the Far East feasibility report. Because of changing market conditions and needs of countries in the Far East, a short-term interim plan will be implemented on a trial basis for one year to determine whether it adequately responds to U.S. agricultural export problems in the region.

A scaled-up communications network and rapid response procedure will be initiated for emergency problems. Increased attention will be given to preventing problems, or, when this is not possible, to resolving them as they emerge. After the scaled-up response plan has operated for a period of time, it will be evaluated to determine if it is successful and should be continued, or whether the Department should consider establishing a Market Technology Facility in the Far East.

The interim scaled-up response plan requires no additional facilities or personnel. The program will be financed from within available funds.

OTA STUDY

Question: A recent study completed by the Office of Technology Assessment indicated that food and agricultural research, hampered by lack of funds and coordination, "is not keeping pace with world food needs." It also noted that the current structure of USDA makes it impossible to manage agricultural research with a national focus, raising questions as to whether USDA has a national research program or merely, "a series of local and regional activities."

(1) What steps, if any, has the Department taken to remedy the deficiences noted in the report?

Answer: The Department has not taken a position on the report at this time. However, ARS is taking several positive steps to meet specific concerns of OTA. These include the following:

1 — ARS has revised its Mission Statement to clearly state its role in providing leadership in research having a national scope.

2 — ARS has underway a major planning effort, short and long range, to establish goals, objectives and priorities.

3 — ARS is in the process of restructuring the National Program Staff to make it more effective in program planning and evaluation, and to define specific program responsibilities.

4 — Increased program redirections are being made to insure that high priority research such as germplasm, resource conservation, animal health, etc., are adequately supported.

5 — Two evaluations or reviews of our organization and operations are just getting under way -- one in cooperation with OMB, the other by OIG. We will cooperate openly and positively with both groups. I am sure that their conclusions and suggestions for improving our entire organization will relate to the OTA study.

6 — ARS is currently reducing the number of Area offices by consolidation.

GAO REPORT

Question: A recent report issued by the General Accounting Office reveals shortcomings in ARS long-range planning. What is the Department doing or proposing to do to correct this deficiency?

Answer: Priority efforts are underway in ARS to correct the shortcomings. A working draft of a complete Strategic Plan is scheduled for May 1, 1982. Operational plans, to be developed immediately after, will be in usable form by October 1982.

The ARS Strategic and Operational Plans are designed to initiate a planning effort which, when full developed, will respond effectively to the concerns expressed by Congress, the White House, OSTP, OMB, OTA and other agencies concerning the need for improved planning in agriculture. The most immediate use of the ARS plan will be to assist ARS to focus more sharply on high priority research and to strengthen operational planning.

FEDERAL PROPERTY OF ARS

Question: Would you please provide for the record a listing of Federal property owned by ARS in terms of location and acreage.

Answer: We will be glad to furnish that information. (The information follows:)

AGRICULTURAL RESEARCH SERVICE
OWNED FACILITIES

Northeastern Region

STATE	CITY	NAME OF INSTALLATION	LAND/ACRES
District of Columbia	Washington, D.C.	U.S. National Arboretum	444.9
Maine	Chapman	Chapman Farm	5.0
	Presque Isle	Arrostook State Farm	0.6
Maryland	Beltsville	Beltsville Agricultural Research Center	7,627.7
	Glenn Dale	Plant Introduction Station	70.0
New York	Brookhaven	Brookhaven National Laboratory	10.2
	Ithaca	U.S. Plant Soil and Nutrition Laboratory	2.3
	Orient Point	Plum Island Animal Disease Center	849.7
Pennsylvania	St. College	Regional Pasture Research Laboratory	0.8
	Wyndmoor	Eastern Regional Research Center	24.5
West Virginia	Beckley	U.S. Soil and Water Conservation Laboratory	42.7
	Kearneysville	Appalachian Fruit Research Station	500.0

North Central Region

STATE	CITY	NAME OF INSTALLATION	LAND/ACRES
Illinois	Peoria	Northern Regional Research Center	20.2
	Trivoli	Grain Bin Site	0.9
Iowa	Ames	National Animal Disease Center	363.7
Kansas	Manhattan	U.S. Grain Marketing Research Laboratory	12.4

AGRICULTURAL RESEARCH SERVICE
OWNED FACILITIES

North Central Region (cont.)

STATE	CITY	NAME OF INSTALLATION	LAND/ACRES
Michigan	East Lansing	Regional Poultry Laboratory	50.0
Minnesota	East Grand Forks	Potato Research Laboratory	0.03
	Morris	North Central Soil Conservation Research Laboratory	15.0
Minnesota	Columbia	Biological Contamination Research Laboratory	10.1
Nebraska	Clay Center	Roman L. Hruska U.S. Meat Animal Research Center	34,355.2
North Dakota	Fargo	Metabolism Radiation Research Laboratory	10.0
	Grand Forks	Human Nutrition Laboratory	1.2
	Mandan	Northern Great Plains Research Center	1,118.7
Ohio	Coshocton	North Appalachian Experimental Watershed Research Station	631.7
South Dakota	Brookings	Northern Grains Insect Research Laboratory	10.0
Wisconsin	Madison	U.S. Dairy Forage Research Center	0.7

Southern Region

STATE	CITY	NAME OF INSTALLATION	LAND/ACRES
Alabama	Auburn	National Tillage Machine Laboratory	45.6
Florida	Brooksville	Beef Cattle Research Station	3,817.5
	Canal Point	U.S. Sugarcane Field Station	12.3
	Gainesville	Insect Attractants Laboratory	11.2
	Miami	Subtropical Horticultural Research Station	210.0
	Newberry	Stored Products Insect Laboratory	2.6

AGRICULTURAL RESEARCH SERVICE
OWNED FACILITIES

Southern Region (cont.)

STATE	CITY	NAME OF INSTALLATION	LAND/ACRES
Florida	Orlando	U.S. Horticultural Research Station	4.5
	Winter Haven	Citrus and Subtropical Products Laboratory	1.9
Georgia	Athens	Southeastern Poultry Research Laboratory	58.4
	Byron	Southeastern Fruit and Tree Research Laboratory	1,163.3
	Dawson	National Peanut Research Laboratory	15.4
	Savannah	Stored Products Insect Research and Development Laboratory	61.8
	Tifton	Georgia Coastal Plains Experiment Station	5.3
	Watkinsville	Southern Piedmont Conservation Experiment Station	973.9
Louisiana	Houma	U.S. Sugarcane Field Laboratory	170.0
	Jeanerette	Iberia Livestock Experiment Station	4.6
	Lake Charles	Gulf Coast Mosquito Research	3.8
	New Orleans	Southern Regional Research Center	36.1
Mississippi	Meridan	U.S. Sugar Crops Field Station	161.7
	Oxford	USDA Sedimentation Laboratory	10.4
	Mississippi State	Boll Weevil Research Laboratory	19.5
	Stoneville	U.S. Delta States Agricultural Research Station	200.8
North Carolina	Oxford	Tobacco Research Laboratory	5.0

AGRICULTURAL RESEARCH SERVICE
OWNED FACILITIES

Southern Region (cont.)

STATE	CITY	NAME OF INSTALLATION	LAND/ACRES
Oklahoma	Durant	Southern Plains Watershed and Water Quality Laboratory	9.1
	El Reno	Southwest Livestock and Forage Research Station	6,737.1
	Woodward	Southern Plains Range Research Station	4,787.4
South Carolina	Charleston	U.S. Vegetable Laboratory	439.6
	Clemson	Rural Housing Research Station	10.0
	Florence	Soil and Water Conservation Research Laboratory	18.4
Tennessee	Knoxville	U.S. Cotton Field Station	0.1
	Lewisburg	Dairy Experiment Station	463.9
Texas	Big Springs	U.S. Big Springs Field Station	275.4
	Brownsville	Cotton Insects Research Laboratory	18.8
	Brownwood	W. R. Poage Pecan Field Station	84.2
	Bushland	Conservation and Production Research Laboratory	1,571.9
	College Station	Veterinary Toxicology and Entomology Laboratory	60.1
	Kerrville	U.S. Livestock Insects Laboratory	33.7
	Lubbock	Agricultural Research at Texas A&M University	7.5
	Reisel	Grassland Soil and Water Research Laboratory	836.8
	Temple	Blackland Experiment Station	451.5
	Weslaco	Subtropical Texas Area Laboratory	5.1

AGRICULTURAL RESEARCH SERVICE
OWNED FACILITIES

Southern Region (cont.)

STATE	CITY	NAME OF INSTALLATION	LAND/ACRES
Virgin Islands	Kingshill	Federal Experiment Station	58.2

Western Region

STATE	CITY	NAME OF INSTALLATION	LAND/ACRES
Arizona	Phoenix	West Cotton Research Laboratory	12.6
	Tucson	Bee Research Laboratory	5.3
California	Albany	Western Regional Research Center	16.6
	Brawley	Imperial Valley Conservation Research Center	80.0
	Fresno	U.S. Horticultural Field Station	20.0
	Indio	U.S. Date and Citrus Station	31.7
	Pasadena	Fruit and Vegetable Chemistry Laboratory	1.1
	Riverside	U.S. Salinity Laboratory	9.5
	Salinas	U.S. Agricultural Research Station	193.8
Colorado	Akron	Central Great Plains Field Station	62.8
	Ft. Collins	Crops Research Laboratory	4.0
	Nunn	Central Plains Experimental Range	14,638.9
Idaho	Dubois	U.S. Sheep Experiment Station	32,452.9
	Kimberly	Snake River Conservation Research Center	9.9
Montana	Miles City	U.S. Range Livestock Experiment Station	55,040.3
	Sidney	Northern Plains Soil Station	10.0

AGRICULTURAL RESEARCH SERVICE
OWNED FACILITIES

Western Region (cont.)

STATE	CITY	NAME OF INSTALLATION	LAND/ACRES
New Mexico	Las Cruces	Jornada Experimental Range	189,940.0
	Mesilla Park	Southwest Cotton Ginning Research	3.0
Oregon	Burns	Squaw Butte Harney Station	14,593.8
	Pendleton	Columbia Plateau Conservation Research Center	14.0
Utah	Logan	Logan Range Experiment Station	1.2
Washington	Moxee City	Moxee Quarantine Station	160.0
	Prosser	Irrigated Agriculture and Extension Center	5.0
	Pullman	Palouse Conservation Field Station	3.0
	Yakima	Entomology Research Station	5.0
Wyoming	Cheyenne	High Plains Grassland Research Station	734.0
		Total.............	377,091.03

FEDERAL LABORATORIES

Question: What is your current scientist occupancy to capacity situation in your Federal laboratories? Please list similar data for FY 1979 - 1981.

Answer: We will provide that information.
(The information follows:)

STATUS OF STAFFING OF AGRICULTURAL RESEARCH SERVICE FACILITIES
(Expressed in terms of scientific personnel)

Location	Current Total Capacity (Scientist)	Occupancy 1979	Occupancy 1980	Occupancy 1981	Occupancy 1982	Percent Occupancy 1979	Percent Occupancy 1980	Percent Occupancy 1981	Percent Occupancy 1982
Alabama:									
Auburn	14	12	11	8	14	86	78	57	100
Arizona:									
Phoenix	35	34	34	34	28	97	97	97	80
Tucson	29	28	28	27	29	97	97	93	100
California:									
Albany	175	165	161	158	134	94	92	90	77
Fresno	32	26	26	26	30	81	81	81	94
Pasadena	14	13	13	13	12	93	93	93	86
Riverside	28	26	26	26	26	93	93	93	93
Salinas	15	12	12	12	12	80	80	80	80
San Francisco	18	--	--	7	11	--	--	39	61
Shafter	13	--	--	13	12	--	--	100	92
Colorado:									
Denver	11	15	15	9	11	100	100	82	100
Ft. Collins	34	28	28	29	34	82	82	85	100
District of Columbia	35	30	44	34	32	86	100	97	91
Florida:									
Gainesville	62	63	57	59	56	100	92	95	90
Miami	11	7	11	10	7	64	100	91	64
Orlando	22	20	20	19	20	91	91	86	91
Winter Haven	16	14	12	12	12	88	75	75	75
Georgia:									
Athens	118	86	107	110	108	72	91	93	92
Byron	24	17	15	17	13	71	63	71	54
Dawson	15	8	8	9	9	53	53	60	60
Savannah	29	26	21	23	23	90	72	79	79
Tifton	22	22	20	22	18	100	91	100	82
Watkinsville	18	15	11	11	10	83	61	61	56
Idaho:									
Dubois	10	9	10	10	9	90	100	100	90
Kimberly	27	25	25	24	27	93	93	89	100
Illinois:									
Peoria	180	212	212	172	161	100	100	96	89

STATUS OF STAFFING OF AGRICULTURAL RESEARCH SERVICE FACILITIES
(Expressed in terms of scientific personnel)

Location	Current Total Capacity (Scientist)	Occupancy				Percent Occupancy			
		1979	1980	1981	1982	1979	1980	1981	1982
Iowa:									
Ames	130	91	91	84	105	70	70	65	81
Kansas:									
Manhattan	47	33	33	29	27	70	70	62	57
Louisiana:									
Baton Rouge	19	18	18	11	10	95	95	58	53
Houma	11	14	14	9	11	100	100	82	100
New Orleans	185	156	129	139	138	84	70	75	75
Maryland:									
Beltsville	592	530	540	537	531	90	91	91	90
Frederick	26	16	16	19	21	62	62	73	81
Hyattsville	10	33	44	45	10	100	100	100	100
Michigan:									
East Lansing	11	10	10	11	10	91	91	100	91
Minnesota:									
Morris	15	11	11	7	10	73	73	47	67
St. Paul	10	9	9	9	6	90	90	90	60
Mississippi:									
Oxford	25	38	38	32	22	100	100	100	88
State College	45	32	28	32	31	71	62	71	69
Stoneville	55	52	52	46	41	95	95	84	75
Missouri:									
Columbia	17	18	18	17	17	100	100	100	100
Montana:									
Miles City	10	10	10	10	9	100	100	100	90
Sidney	11	10	10	8	9	91	91	73	82
Nebraska:									
Clay Center	67	30	30	44	35	45	45	66	52
New York:									
Greenport	53	39	42	47	35	74	79	89	66
Ithaca	21	10	13	16	18	48	62	76	86
North Carolina:									
Oxford	16	9	13	11	13	56	81	69	81
Raleigh	18	--	--	--	14	--	--	--	78

STATUS OF STAFFING OF AGRICULTURAL RESEARCH SERVICE FACILITIES
(Expressed in terms of scientific personnel)

Location	Current Total Capacity (Scientist)	Occupancy 1979	1980	1981	1982	Percent Occupancy 1979	1980	1981	1982
North Dakota:									
Fargo	56	37	37	39	56	66	66	70	100
Grand Forks	12	9	9	12	12	75	75	100	100
Mandan	20	23	23	23	20	100	100	100	100
Oklahoma:									
Durant	12	10	10	10	11	83	83	83	92
El Reno	10	7	7	6	9	70	70	60	90
Stillwater	11	--	--	--	11	--	--	--	100
Woodward	10	--	--	--	5	--	--	--	50
Oregon:									
Pendleton	13	15	16	16	13	100	100	100	100
Corvallis	11	--	--	--	11	--	--	--	100
Pennsylvania:									
University Park	23	14	14	14	23	61	61	61	100
Wyndmoor	170	137	134	146	153	81	79	86	90
Puerto Rico:									
Mayaquez	10	10	6	6	8	100	60	60	80
South Carolina:									
Charleston	14	14	12	14	12	100	86	100	86
Florence	11	--	--	--	11	--	--	--	100
South Dakota:									
Brookings	17	14	14	11	12	82	82	65	71
Texas:									
Brownsville	15	7	8	8	7	47	53	53	47
Bushland	22	21	22	19	19	95	100	86	86
College Station	64	52	64	47	48	81	100	73	75
Kerrville	14	14	17	17	13	100	100	100	93
Temple	29	20	22	25	29	69	76	86	100
Weslaco	37	34	34	36	37	92	92	97	100
Utah:									
Logan	20	19	19	19	20	95	95	95	100
Washington:									
Yakima	22	22	22	20	16	100	100	91	73
Wenatchee	15	15	15	13	12	100	100	87	80
West Virginia:									
Beckley	20	--	--	6	8	--	--	30	40
Kearneysville	25	--	10	11	12	--	40	44	48
Wisconsin:									
Madison	19	--	--	--	7	--	--	--	37

STATUS OF STAFFING OF AGRICULTURAL RESEARCH SERVICE FACILITIES
(Expressed in terms of scientific personnel)

Location	Current Total Capacity (Scientist)	Occupancy				Percent Occupancy			
		1979	1980	1981	1982	1979	1980	1981	1982
Subtotal (74) Locations with capacity of 10 or more scientists	3,103	2,576	2,611	2,575	2,576	83	84	83	83
All other Locations (40 with capacity of less than 10 scientist)	191	146	140	141	141	76	73	74	77
Total, Federal Facilities	3,294	2,722	2,751	2,716	2,723	83	83	82	83

CLOSING OF RESEARCH LABORATORIES

Question: Also please provide a listing of research laboratories, together with the number of personnel involved and indicate which ones are proposed for closing? What would happen to personnel involved and projected cost of moving or terminating said personnel.

Answer: The Agricultural Research Service's current program and organization consists of approximately 3,000 research projects and 148 locations. The research is reviewed and evaluated annually and is measured by various program criteria as well as overall cost effectiveness. We are currently involved in a critical examination of ongoing research to determine those programs and locations that need additional emphasis or strengthening. Resources to carry out these needs will be redirected from within Agency resources. As of this time, no locations have been recommended for close-out by the Department. Should such action be recommended, personnel involved would be reassigned to other ongoing programs to the greatest extent possible. Given the magnitude of the research programs involved in our review process, the personnel impact would be minimal.

BASIC RESEARCH

Question: Your Budget request for 1983 again stresses the need for basic research as the investment for future agricultural production. Would you please discuss the impact this emphasis has on your applied research effort which seeks to respond to today's needs.

Answer: Agricultural science is a continuum of research and development activities ranging from the most basic and fundamental aspects of biological research to field application by the farmer, rancher, and processor. Over the last several decades, we have greatly increased agricultural production in this country but the rate of increased productivity has now declined or in some cases even plateaued. We feel it is now time to put more emphasis on basic research to increase farmer productivity in the future. Basic research on the biological mechanisms operating at the subcellular, cellular, tissue, organ, and organism levels would lead to a better understanding of existing processes which then could be exploited. For example, basic research on bioregulators would give us leads on how to influence or control plant growth and development, flowering, maturity, senesence, nutrient uptake, yield and quality components, cold hardiness, heat tolerance, and other agriculturally important characteristics. Host-plant resistance research would better define the biological nature of disease and insect resistance that we know exists. We know that certain plant varieties are immune to certain diseases but the mechanisms of resistance at the cellular level are not well understood.

There is much to be learned about the manipulation of plant and animal genes and how such manipulation might benefit agriculture. We know DNA molecules can be exchanged between microorganisms which has already helped us develop a more effective and safer animal vaccine for foot and mouth disease. We anticipate that basic research on genetic engineering would eventually lead to a transfer of desirable traits not now possible between plant species. This would lead to much more diversity of individual plant characteristics which then could be exploited by the plant breeder and to the eventual benefit of the farmer and the consumer. Similar benefits to our applied research programs are envisioned from basic research on photosynthesis; plant tissue culture; insect pheromones; animal metabolism and physiology; animal reproduction; long-term effects of soil erosion on soil productivity; physiological and chemical changes that occur in farm produce moving through market channels; the relationships of human nutrition and aging; optimal nutritional requirements for pregnant women, lactating mothers, and children; and other such areas of research of high national priority. We believe basic research in the biological sciences will provide new breakthroughs and is vitally essential to our applied research programs which directly relate to improved agricultural practices.

Question: Please list that percent of basic research performed by ARS since 1975.

Answer: The following is the percent of basic research performed or to be performed by the Agricultural Research Service for fiscal years 1975 thru 1983.

1975	42.0%
1976	42.0%
1977	42.0%
1978	43.7%
1979	42.8%
1980	44.8%
1981	47.4%
1982	48.8%
1983	48.7%

PERSONNEL CEILING

Question: Personnel hiring ceilings are projected in the 1983 Budget. How will this impact on your ability to staff the Human Nutrition Centers in ARS?

Answer: The personnel hiring ceilings projected in the 1983 budget will not adversely affect our ability to staff the Human Nutrition Research Centers in ARS.

The new centers at Tufts University in Boston, MA Baylor College of Medicine in Houston, TX and the Letterman Army Institute of Research in San Francisco, CA all need additional staffing to reach the critical level of scientists required to meet their missions. However, all centers have cooperative agreements with affiliated universities. The advantage of these arrangements is that the research centers can make use of the scientific talent and expertise at the universities to meet their missions while maintaining a minimal federal presence.

CONSERVATION TILLAGE RESEARCH

Question: The practice of conservation tillage is a suggested remedy to soil erosion. Some farmers say they are having difficulties with this system. What's research doing to identify and solve these problems?

Answer: The primary thrust of ARS conservation tillage research is to increase its adoption by farmers by developing effective and profitable production systems. Yields are often greater with conservation tillage in the semiarid wheat belt where it reduces water loss, and in the southern States where it permits multiple cropping. Problems have been encountered in the northern humid areas, particularly on heavy, poorly drained soils. The yield decreases are usually associated directly with the crop residue itself. It interferes with seed-soil contact, absorbs herbicide, ties up applied nitrogen fertilizer, and reflects sunlight, resulting in colder soils. There is also evidence of direct toxicity from decomposing residue that interferes with early seedling growth in some areas. Elimination of plowing and cultivation also makes weed control more difficult. Good progress is being made on developing cropping systems to overcome these problems. Recent results from Ames, Iowa, for example, show that yields with corn-soybean rotations can be maintained as high with conservation tillage as with conventional tillage. However, problems remain to be worked out with continuous corn systems.

UTILIZATION

Question: Would you please discuss the advantages of Federal involvement in utilization research and the likelihood of industry assuming this work if Federal funding were terminated?

Answer: The Federal role in utilization research is to provide the optimum means for using agricultural products in the national interest of maintaining markets and developing new ones This involves long range, high risk fundamental research that the private sector is unwilling to do or lacks the resources to perform. The interests of the private sector do not assure maximum use of raw agricultural materials because decisions are based on costs and profitability. Industry research is directed to areas that can result in marketable products in a short period of time. Federal utilization research is concerned with developing basic information essential to converting raw agricultural materials into useful forms. This basic information is available to the private sector for its developmental research leading to new products and uses.

Federal research is long term while the private sector views its research in the relatively short term.

Public and private studies indicate that industry will not assume the basic utilization research if Federal funding were terminated.

HIGH PRIORITY RESEARCH

Question: Could you enumerate what you consider to be the highest priority research within your major mission areas of plant, animal, soil and water, post harvest, and nutrition research.

Answer: Those areas of research we consider among the highest of priority include the following.

Plant Sciences. Preservation of our germplasm base, including acquisition and maintenance; genetics research with special emphasis on genetic engineering; basic research on plant processes, biological regulators, and host-plant interactions; and integration of all available control technology into multi-pest, multi-crop protection and production systems which would be applicable to wide-area pest suppression that reduces costs to producers and society.

Animal Science. Use of genetic engineering technology to produce vaccines for control and prevention of disease, for transferring genes in livestock, to transfer desirable animal product traits and disease resistance, and to determine the immune response of livestock to pathogens and arthropod pests; improved reproductive efficiency of livestock to include research on embryo transfer, storage of gametes, cloning, sex determination, and reproductive diseases; and research on nutritional physiology to determine the basic metabolic mechanisms involved at the cellular level that control the absorption, assimilation, and utilization of nutrients, protein synthesis, and fat deposition.

Soil and Water Sciences. Evaluation of the effect of erosion on long-term soil productivity; development of conservation tillage and other farming systems for reducing soil erosion; and improved farming practices for utilizing water more efficiently.

Post Harvest Sciences. Reduction of losses of agricultural products caused by pests and changes in the environment such as light, oxygen, and temperature; efficient conversion of raw agricultural products to food and other products; and research to assess and optimize the efficiency of the systems which carry raw agricultural commodities from the field to the consumer.

Human Nutrition. Study of the relationship between nutrition and aging; establishing the optimal nutritional requirements for pregnant and lactating women and the child from conception through adolescence; and development of reliable efficient and inexpensive methods for defining nutritional status of humans.

ACTION AGENCIES

Question: Your recommended budget does not address additional needs of action agencies as in previous years. Would you identify one or two research priority needs for each of these agencies?

Answer: The Agricultural Research Service is in constant communication with the action agencies throughout the year and high priority research needs are cooperatively identified. With the Animal and Plant Health Inspection Service, we have identified four specific needs:

> A means of better detecting fruits, plants, seeds, meat, and meat byproducts in passenger baggage; an alternative to ethylene dibromide for quarantine treatments; determine the duration of protection following reduced dosage vaccination with Strain 19 vaccine for brucellosis eradication in cattle and; Characterization subpopulations of T lymphocytes for brucellosis eradication.

With the Soil Conservation Service, we recognize the need for:

> Innovative methods to expand the use of conservation tillage methods while maintaining optimum crop production levels and the means to accurately assess the impact of soil erosion on agricultural productivity.

We have identified two areas of need for the Food Safety and Inspection Service; these are, the need to eliminate salmonella in the production and processing of poultry and to reduce sodium in processed foods.

The Food and Nutrition Service has expressed a need for the development of reliable, efficient, and inexpensive methods for defining nutritional status of individuals and the development of improved methodologies to monitor and measure dietary intake.

Instrumentation for grading live animals and animal carcasses, is a need of the Agricultural Marketing Service.

The Office of Transportation has a need for research to improve quality evaluation of commodities handled by the transportation system.

We have identified two needs with the Federal Grain Inspection Service - the characterization of grain dust and improved methodologies to assure worker safety in grain elevators and improved methodologies for the rapid detection of insects and moisture content in grain.

In the Foreign Agricultural Service - There is a need to develop an improved technical capability in support of foreign agricultural market development.

With the Department of Defense, we have identified the need to develop effective, safe and inexpensive pesticides and delivery systems to protect field rations, and to test acceptability of sterile concentrate milk in 6 gallon containers for submarine and overseas Air Force needs.

Two important research needs for the Environmental Protection Agency are to develop information for assessing the agricultural value of pesticides that have been identified as possibly posing hazards to man or the environment, and to develop the methodology for predicting the effect of various farming systems on water runoff and quality.

FSIS needs are addressed as budget increases under expanded basic agricultural research. Salinity control in the Colorado River basin and Soil erosion/productivity research are also budget increase requests which directly support action agencies. Other high priority needs will be met by redirections within the base programs supporting each agency.

Question: Would you list ten of your most significant research accomplishments within the last five years.

Answer: Some of the most significant research accomplishments in the last few years have been those in support of the Animal and Plant Health Inspection Service. We developed a highly successful attractant and bait system to complement the sterile fly release program now being used to eradicate the screwworm from the United States and Mexico.

Our research allowed the successful introduction of three species of parasites of the alalfa blotch leaf miner which successfully controlled the insect pest in a three year period.

We recently developed a new and safe vaccine for foot-and-mouth disease by using recombinant DNA technology and we have developed competitive sterile male hybrid ticks by crossing the cattle tick and southern cattle tick.

We also developed an improved method for synthesizing large quantities of strigol, an important natural plant component which is now being used in an effort to contain and eradicate the witchweed.

We have had three research accomplishments that directly relate to the mission of the Soil Conservation Service. Our scientists have developed tillage systems that enable farmers to reduce erosion losses by 85% while efficently utilizing fertilizers and reducing fuel consumption, a model to accurately predict the effect of management practices for control of nonpoint source pollution, and the technology necessary for effectively restoring the productivity of western strip-mined areas.

Two research accomplishments have been particularly useful to the Food Safety Inspection Service. These are the development of a simple field test to detect sulfa drugs in animal feeds which cause excessive and unlawful residue levels in meat, and nondestructive optical techniques for rapid, inexpensive, and accurate measurement of protein, oil, moisture, and fiber in agricultural commodities.

EXTRAMURAL RESEARCH

Question: How much funds do you commit annually for extramural research and to whom?

Answer: In fiscal year 1981, ARS had approximately $37.4 million or 9% of the obligations devoted to extramural research. Total funding available for extramural research in FY 1982 and 1983 is estimated to be $40.0 and $55.0 million respectively. Approximately 95% of those funds are utilized in research and development contracts and cooperative agreements with colleges and universities, predominately located at State Agricultural Experiment Stations.

PLUM ISLAND ANIMAL DISEASE CENTER

Question: What is the status of construction activities at the Plum Island Animal Disease Center? Please outline in some detail.

Answer: The following is the status of the various phases of construction activities at the Plum Island Animal Disease Center on Plum Island, New York:

Vaccine Storage Warehouse -- Construction began in September 1980 and was completed in August 1981.

Entry and Change Facility -- Design completed. Project advertised for bids on February 16, 1982. Construction scheduled to be completed by March 1983.

Animal/Incinerator/Autopsy Addition -- Design started. Construction scheduled to start in November 1982 and completed by May 1984.

Diagnostic Research Laboratory Addition -- Program requirements have been reaffirmed. Design scheduled to start in May 1982. Construction scheduled to begin in January 1983 and completed by December 1983.

"Mothballing" of the Vaccine Research Laboratory -- Design scheduled to start in August 1982. Construction scheduled to begin February 1983 and completed by June 1983. Temporary measures have already been taken to protect equipment, structures, and personnel from damage or injury.

A modification to the Construction Manager's contract has been implemented to provide design and construction management services extending to April 20, 1984, the anticipated completed date of all authorized construction.

The design of the Test Containment Room is approximately 90% complete. The information obtained from the construction and testing of the Test Containment Room will determine the direction of the Animal Wing design.

CONSERVATION AND TILLAGE

Question: Secretary Block and the Soil Conservation Service are urging farmers to reduce tillage as a means of reducing soil erosion. We support this objective, but how can we encourage farmers to reduce tillage or practice no-till farming and increase conservation tillage unless you can advise them on how to control weeds effectively, safely, and economically by the use of herbicides or other alternatives to tillage?

Answer: We have developed effective, economical, safe, and environmentally compatible chemical, cultural, and integrated weed and crop management systems. These systems will enhance the use of conservation tillage in several field and horticultural crops on about 50 to 75 million acres of some soil types in several regions. Nevertheless, deep rooted perennial weeds and the inadequacy of control technology for these difficult-to-control weeds on millions of acres of cropland in the United States are obstacles to wider acceptance by farmers of conservation tillage practices. We recognize that improved weed control technologies, especially integrated management systems for perennial weed control, are critically needed to enhance the use of conservation tillage practices by farmers on more acres of our cropland. We are redirecting our research program and requesting additional resources to accomplish this objective.

Question: How many scientists and dollars in fiscal year 1982 did Agricultural Research Service detail to weed control research that directly supports conservation tillage?

Answer: In fiscal year 1982, ARS devoted about 3 scientist years and about $300,000 to weed control research that directly supports conservation tillage.

Question: How much are you requesting to support this type of weed research in fiscal year 1983?

Answer: In FY 1983, ARS is requesting $200,000 to support an additional 2 scientist years to conduct weed control research that directly supports conservation tillage.

WILD OAT RESEARCH

Question: Congress has appropriated funds for research on wild oat control. Please describe the problems you have solved and any technology you have developed. Are the current control practices adequate to prevent losses from wild oats? If additional funds were appropriated, could the current practices be improved? What additional resources would be needed?

Answer: In 1978, wild oats was one of the most serious national and world-wide weed problems in agriculture. This weed was estimated to cause losses in crops valued at more than one and one half billion dollars in North America. The losses caused by wild oats in US agriculture was estimated at more than one half billion dollars in 1978, exceeding the losses caused by many other serious pests. Since 1978, ARS scientists in cooperation with scientists of the North Dakota and Washington Agricultural Experiment Stations and the chemical industry have developed significantly improved wild oats control technology that is effective, economical, safe, and environmentally compatible with crop production practices. This technology has cut the losses from wild oat in the United States by more than 50 percent resulting in an increase in farm income of about $300 million each year. The improved weed control technology is based on a system which includes: 1– summer fallow, 2– rotating soybeans or sunflower with small grains, 3– delayed seeding of wheat or barley, and 4– the use of significantly improved chemical weed control practices. Selective herbicides are now available for wild oats control in summer fallow, soybeans, sunflower, wheat, barley, and other crops included in rotations. Scientists have developed significant improvements in chemical control of wild oat based on the use of such herbicides as triallate, barban, difenzoquat, trifluralin, diclofop and combinations of these herbicides and others. Those integrated weed management and cropping systems that have been developed since 1978 are effective in reducing the losses caused by wild oat. The wild oats control practices that were developed represent a revolutionary advance. However, this control technology is not perfect and farmers will still continue to sustain losses of 10 to 15 percent in crop yields. Such losses are unacceptable. If additional funds were appropriated, current wild oat control practices could be significantly improved by emphasizing basic research to develop a better understanding of the germination of wild oats, the longevity of wild oat seeds in the soil, and the development of improved chemical, cultural, and ecological practices and especially integrated weed management systems that will prevent other weeds from becoming problems when wild oats are controlled. In order to develop this technology, approximately $450,000 annually to support 3 additional scientist years will be required.

LEAFY SPURGE RESEARCH

Question: Congress has appropriated funds for research on leafy spurge. Have you been able to develop satisfactory methods of control based on your current program?

Answer: ARS has expanded its research program on leafy spurge and its control. ARS scientists in cooperation with scientists of several of the State agricultural experiment stations and industrial scientists have been highly successful in developing tillage methods, cultural practices, and crop rotations. These are used in combination with selective herbicides and integrated weed management systems that are highly effective for the control of leafy spurge in cultivated crops. Thus, leafy spurge is no longer a serious problem in cultivated crops. Our current control technology is not economical or effective in controlling leafy spurge on rangelands. Leafy spurge now infests more than 3 million acres of grazing lands in the United States and the infestation is expected to more than double within the next three years. Recognizing this emergency, ARS in calendar year 1981 used $200,000 from contingency funds to establish temporary cooperative research agreements on leafy spurge control with North Dakota, Montana, and Wyoming Agricultural Experiment Stations. The objective of this cooperative 3 year research program is to develop improved, economical, and safe methods of controlling leafy spurge on grazing lands.

ROPE WICK APPLICATOR

Question: Last year you reported on the discovery of the rope wick applicator by Agricultural Research Service scientists and its development by industry. Are farmers using the applicator? Is it effective and economical?

Answer: Farmers are using the rope wick applicator discovered by ARS scientists at the Southern Weed Science Research Laboratory at Stoneville, Mississippi, on an extensive scale. The industry has shown an intense interest in the development of improved rope wick applicators for use by farmers and others who apply selective herbicides for weed control. In 1981, more than 80,000 additional rope wick applicators were manufactured by commercial companies or constructed by farmers on their farms. The rope wick applicator was used to selectively, economically, and safely control weeds on more than 30 million acres, saving farmers an estimated $150 million in reduced herbicide cost. In addition, the use of the rope wick applicator increased crop yields with a net profit to farmers of about $750 million in 1981. Thus the estimated total net profit to farmers for using this weed control device in 1981, amounted to about $900 million. This estimated net profit annually to farmers is greater than all of the federal and state appropriations ever made for weed control research. This annual savings is about twice the total research budget of ARS. The discovery of the rope wick applicator by ARS scientists is an excellent example of the cost effectiveness of basic and applied agricultural research.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

HUMAN NUTRITION

Question: You have requested an increase of $2,438,000 for human nutrition research. How much of this increase will be going to the Human Nutrition Lab at the University of North Dakota in Grand Forks, North Dakota?

Answer: An increase of approximately $214,900 in pay costs and operating funds for base maintenance will go to the Grand Forks Human Nutrition Research Center in FY 1983

Question: How will the rest of the increase be divided?

Answer: The $1.0 million will go to the Western Human Nutrition Research Center to support research to improve methodology development for the Nutrition Intervention Programs of the Department. The remainder of this increase will cover operating increases and pay costs for the human nutrition laboratories at Beltsville, Houston, Boston, San Francisco.

Question: How much do you estimate it would take to completely equip the lab at Grand Forks?

Answer: It is estimated that it will cost approximately $2.5 million to provide new equipment and replace of outdated equipment now at the Grand Forks Human Nutrition Research

Center. The Departments view is that, given the economic situation facing the nation, sufficient funds and equipment are currently available to provide important work at the Grand Fords laboratory.

BARLEY

Question: What is the status of funding for a new pilot unit at the National Barley and Malt Laboratory.

Answer: A total of $75,000 was allotted for the pilot malting unit. The specially designed unit is presently under construction and we expect to use it for the 1982 crop experimental lines.

Question: Can you provide for the record a rundown on the barley research that is being done, where it is being done, and what increases we can expect in FY83.

Answer: We have considerable research in barley breeding, improved production practices, weed control, and malting quality. The FY 83 planned increase over last year is $154,600 with $1,937,100 planned for all barley research at 17 locations. The breakdown of funds by location for FY 83 and the last two years will be submitted for the record.

(The information follows.)

LOCATION	1981 ACTUAL	1982 PLANNED	1983 PLANNED
Alaska, Palmer	$ 58,099	$ 111,400	$ 116,900
Arizona, Tucson	122,872	130,300	136,700
Colorado, Ft. Collins	67,291	69,200	72,600
Idaho, Aberdeen	69,134	54,000	56,700
Indiana, Lafayette	7,536	7,400	7,800
Maryland, Beltsville	205,377	221,000	248,900
Michigan, E. Lansing	126,604	147,300	204,500
Minnesota, St. Paul	5,971	6,600	6,900
Missouri, Columbia	- -	6,600	6,900
Montana, Bozeman	159,212	145,000	152,100
Montana, Sidney	17,757	17,300	18,100
Nebraska, Lincoln	17,479	18,000	18,900
North Dakota, Fargo	214,621	205,400	215,500
South Dakota, Brookings	159,718	158,800	166,600
Utah, Logan	24,398	23,400	24,500
Washington, Pullman	34,896	44,300	46,500
Wisconsin, Madison	461,521	416,500	437,000
TOTAL	$1,752,486	$1,782,500	$1,937,100

GRASSHOPPER RESEARCH

Question: Last year we increased funding for grasshopper management research at North Dakota and South Dakota Agricultural Experiment Stations and by SEA-AR in Ithaca, NY. What funding is projected for that project in FY 83?

Answer: We are projecting total funding for the grasshopper research projects at North Dakota State Agricultural Experiment Station, South Dakota State Agricultural Experiment Station, and by ARS at Ithaca, NY, to be $153,000 in FY 83.

LEAFY SPURGE

Question: How much funding will be available this year for the leafy spurge research being carried out in North Dakota?

Answer: In FY 1983, ARS will use $173,200 to support research on leafy spurge and its control by ARS scientists in North Dakota. There are also funds for general weed research related to leafy spurge at Albany, California, and Lincoln, Nebraska.

Question: Is there any other funding for leafy spurge research?

Answer: There are funds for general, weed research related to leafy spurge and its control at Albany, California and Lincoln, Nebraska.

WILD OATS

Question: Will there be any funds available this year for wild oats research?

Answer: ARS will use $230,000 to support wild oat research by ARS scientists in North Dakota and Washington.

GENERAL RESEARCH

Question: I would appreciate it if you would supply me with a rundown of all research funds that will go to North Dakota in FY 83.

Answer: In FY 1983, a total of $11,730,800 will go to North Dakota. These funds will be distributed to the following locations: Fargo, $6,236,800; Grand Forks, $3,412,400; and Mandan, $2,081,600.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

OREGON STATE UNIVERSITY PROPOSAL

Question: As you know, the Conference Report on the Department of Agriculture Appropriations bill for FY 1982 included report language urging the Department to give careful consideration to a potential project developed at Oregon State University for a feasibility study on the use of agricultural residues and forest slash as fuel sources for a combined-cycle, closed-loop electrical power plant. Has this project been given the careful consideration that the conferees directed?

Answer: Yes. Technical representatives of the Forest Service, Cooperative State Research Service, Extension Service, Economic Research Service, and Agricultural Research Service have made a careful evaluation of the proposal.

Question: Prior to my supporting this proposal, the Oregon Department of Energy and others investigated this project and determined that it was technically sound. Does USDA find the project to be technically sound?

Answer: The committee found the proposal to be technically sound.

Question: Would the project impact the agricultural and energy needs of the small farmer and/or enhance the goals of rural electrification?

Answer: There would be little impact on the agricultural and energy needs of the small farm or on the goals of rural electrification. The proposal is to make a feasibility study for a 10 megawatt, direct-fired combined cycle power plant which would utilize forest slash and agricultural residues as fuel. If such a plant is shown to be feasible, an alternative fuel for generating electricity would be available.

Question: Would this effort contribute to solving the problem of how to dispose of forest residues and agricultural wastes?

Answer: Yes, assuming power plants utilizing residues are shown to be economical and technically feasible.

Question: Will the proposed research enhance the understanding of agricultural related energy problems and provide potential solutions?

Answer: The proposal is on the development of technology for large-scale biomass conversion and does not relate to agricultural or forestry sciences. It would not, therefore, directly contribute to the understanding of agriculturally related energy problems.

Question: The record shows that agricultural programs implemented by Land Grant College research efforts have produced significant agricultural productivity gains over the past twenty years. Land Grant Colleges are the logical mechanism to implement a project of this nature. Is Oregon State University an appropriate institution to conduct and manage the proposed effort?

Answer: Oregon State University is a leader in research on the combustion of biomass, and is among those institutions which should be considered to conduct and manage the proposed project.

Question: Does the proposed project team represent an appropriate professional mix to carry out the project?

Answer: As we understand it, a team of scientists from the Schools of Engineering and Forestry, Oregon State University, and consultants from the Biomass Energy Cooperative are scheduled to carry out the proposed work. If plans have not already been made to do so, it may be desirable to involve scientists from the School of Agriculture or the Agricultural Experiment Station.

Question: Do you feel that the proposed research will have a direct impact on the livelihood of agricultural residents in terms of increased employment, cheaper rural energy, and greater efficiency in the agricultural sector?

Answer: If the proposed study shows the combined cycle power generation to be feasible, there would be favorable impacts on employment, energy prices, and efficiency in agricultural sectors.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

DISTRIBUTION OF ARS MANAGEMENT COSTS

Question: Please provide for the record a compilation of administrative costs proposed in the FY 1983 budget and how they compare with the FY 1982 levels. This breakout is to include Headquarters operations, regional, and area administrative office figures as well as administrative overhead associated with major laboratory facilities, i.e., Beltsville, Peoria, etc.

Answer: The Indirect Program Support Cost for ARS does not simply represent "Administrative Costs" but rather those costs involved in program planning and direction and program administration as performed in Headquarters, Regional and Area offices. The planned level of funding to meet these needs in FY 1982 for Headquarters is $36.1 million; Regional management, $16.9 million; and Area and major Centers, $4.9 million.

Costs at Headquarters also include expenses paid to the Department for Central Charges that also derive from programs in the field, such as official mail charges, federal telephone expenses, printing, services of the National Finance Center, etc. Further, expenses relative to special needs that impact programs such as at symposia and the initiation of special research studies, and related needs, are also paid from this account.

Other than increases in the Central Charges account; increases in rents as charged by GSA for management space; and pay act increases to be enacted next fall, we do not estimate any sizable increases in 1983 over 1982.

LAND AND STRUCTURES

Question: The explanatory notes indicate that $14.1 million is to be spent on lands and structures during Fiscal Year 1983. How are these lands to be used and if a location by location breakdown is available, please supply?

Answer: The Object Classification "Lands and Structures" includes repair and maintenance of existing facilities, alteration and modification of facilities, addition to buildings, retrofit, non-structural improvements, fixed equipment, and construction activities involving specific appropriated construction projects as well as construction under existing limitations within the appropriation language.

The $14.1 million included estimates of $3.9 million for the Human Nutrition Center, Boston, Massachusetts, and $1.0 million for the Human Nutrition Laboratory, Grand Forks, North Dakota; funds for both of these projects were appropriated in Fiscal Year 1982. Because these funds have been appropriated under our annual account, they will be committed in FY 1982 as opposed to the original estimate.

SUPPLIES AND EQUIPMENT

Question: I note that expenditures for supplies and equipment will have increased by 30 percent since FY 1981. What accounts for this increase? Are there any major new equipment purchases?

Anwer: While the total increase in Fiscal Year 1983 for object classes 26 and 31 is 26.4 percent since 1981, the percentage share of funding for these two object classes relative to total ARS obligations is approximately the same as in FY 1981.

Inflation has been a key factor on supplies and equipment rising costs as it affects all areas of the economy. Costs for

OTHER SERVICES

Questions: The notes indicate a 37 percent increase in spending for object class 25, other services. What accounts for this increase?

Answer: The 37 percent increase in costs for 1983 over 1982 for Agricultural Research Service is due to the fact that ARS had to redirect resources from this object class in FY 1982 to help absorb the total of $13.5 million in FY 1982 pay costs for which no supplemental was requested. To enable the Agricultural Research Service to cover this cost, it was necessary to decrease the level of funding in the object classification items that would have otherwise been available for strengthening extramural research contracts and cooperative agreements; contractural services performed by other Federal agencies; contractural administration and program support services; data processing; A-76 contracting; motor pool and agricultural engineering services; equipment and structural maintenance, as well as contracts for health and medical services, tuition fees and certain expenses affected by transfers of personnel.

The 1983 estimate for "other services" reflect the restoration of the pay cost that was absorbed in 1982. The funds in this object class are necessary to carry out these activities for ongoing programs and those services required under the new expanded research initiatives recommended in 1983.

On a comparability basis, 1983 over 1982, the share of obligations for "other services" as compared to total ARS obligations has increased by 2 percent, most of which is related to inflation.

TEN BUILDINGS LIMITATION

Question: You have requested authority to construct up to 10 buildings at a cost of not exceed $233,000 each. Does the agency intend to utilize this authority to construct new buildings and, if so, what types of buildings are comtemplated; what has caused the need for these new facilities, and at what locations will they be built?

Answer: ARS intends to utilize this authority for construction in FY 1983. Specific locations and types of buildings to be constructed will be influenced by the funding levels for programs and projects, which Congress authorizes. In accordance with Congressional intent, ARS plans, under this authority, to erect facilities necessary to pursue highest priority research projects, provided sufficient funding is available.

HEADHOUSE/GREENHOUSE CONSTRUCTION

Question: Does the agency contemplate construction of any headhouses connecting greenhouses in FY 1983? If so where will these be located and what will their cost be?

Answer: Two of these complexes are planned for FY 1983, one at Albany, California, for biological control of weeds research at an estimated cost of $400,000, and one at Columbia, Missouri, for crop production research and cereal genetics research at less than $500,000, provided sufficient resources are available.

INCREASES IN AGRICULTURAL RESEARCH SERVICE

Question: On page 55 and the following pages of the explanatory notes, the agency has identified specific areas of increase in the agricultural research program. Please provide specific location increases currently associated with these proposals, not including inflationary increases necessary to maintain current programs. How much of the proposed increase will be contract work?

Answer: The following details indicate the planned use of the proposed increases for FY 1983. Contractual work is identified parenthetically.

Item of Increase	
1. Basic Research	
Animal Production Efficiency	Amount
Athens, Georgia	$ 100,000
Ames, Iowa	250,000
Beltsville, Maryland	900,000(100,000)
East Lansing, Michigan	200,000
Miles City, Montana	100,000
Clay Center, Nebraska	950,000
Plum Island, New York	300,000
Fargo, North Dakota	100,000
Madison, Wisconsin	200,000
Total, Animal Production Efficiency	3,100,000

Item of Increase	Amount
Plant Production Efficiency	
Host Pest Interaction Mechanisms	
Phoenix, Arizona	$80,000
Gainesville, Florida	150,000(30,000)
Lafayette, Indiana	50,000
Beltsville, Maryland	280,000(50,000)
Mississippi State, Mississippi	70,000
Stoneville, Mississippi	80,000
Fargo, North Dakota	160,000(50,000)
Wooster, Ohio	100,000
Stillwater, Oklahoma	70,000
Charleston, South Carolina	100,000
College Station, Texas	80,000
Yakima, Washington	80,000
Total, Host Pest Interaction	1,300,000
Gene Manipulation and Plant Metabolism	
Phoenix, Arizona	200,000
Tucson, Arizona	120,000
Albany, California	100,000
Pasadena, California	75,000
Gainesville Florida	450,000
Athens, Georgia	450,000
Peoria, Illinois	130,000
Urbana, Illinois	200,000
Baton Rouge, Louisiana	50,000
Beltsville, Maryland	1,340,000
East Lansing, Michigan	100,000
St. Paul, Minnesota	160,000
Columbia, Missouri	150,000
Lincoln, Nebraska	100,000
Ithaca, New York	250,000
Lubbock, Texas	125,000
Weslaco, Texas	75,000
Logan, Utah	100,000
Pullman, Washington	100,000
Madison, Wisconsin	150,000
Total, Gene Manipulation and Plant Metabolism	4,425,000
Conservation of Land, Water and Air Resources	
Riverside, California	100,000
Gainesville, Florida	100,000
Lubbock, Texas	100,000
Temple, Texas	75,000
Total, Conservation of Land, Water & Air	375,000
Processing Efficiency	
Albany, California	100,000
Athens, Georgia	100,000
Wyndmoor, Pennsylvania	200,000
Total Processing Efficiency	400,000
Total, Basic Research	9,600,000

Item of Increase	Amount
2. Animal Health and Protection Research	
Auburn, Alabama	$ 50,000
Albany, California	400,000(400,000)
Gainesville, Florida	150,000
Athens, Georgia	100,000
Ames, Iowa	400,000
New Orleans, Louisiana	675,000(675,000)
Lake Charles, Louisiana	50,000
Peoria, Illinois	750,000(750,000)
Beltsville, Maryland	750,000(475,000)
Plum Island, New York	500,000
Fargo, North Dakota	100,000
Kerrville, Texas	75,000
Total, Animal Health & Protection Research	$4,000,000
3. Range and Pasture Research	
Woodward, Oklahoma	150,000
Reno, Nevada	125,000
Boise, Idaho	100,000
Tucson, Arizona	125,000
Total, Range & Pasture Research	500,000
4. National Plant Germplasm	
Headquarters (Extramural)	285,000
Ft. Collins, Colorada	100,000
Miami, Florida	90,000
Orlando, Florida	150,000
Byron, Georgia	190,000
Experiment, Georgia	100,000
Tifton, Georgia	120,000
Aberdeen, Idaho	150,000
Peoria, Illinois	120,000(120,000)
Urbana, Illinois	70,000
Ames, Iowa	100,000
Beltsville, Maryland	1,110,000(300,000E)
East Lansing, Michigan	75,000
Stoneville, Mississippi	240,000
Lincoln, Nebraska	200,000
Geneva, New York	75,000
Oxford, North Carolina	40,000
Mayaguez, Puerto Rico	165,000
Logan, Utah	150,000
Prosser, Washington	80,000
Pullman, Washington	100,000
Madison, Wisconsin	90,000
Total, National Plant Germplasm	3,800,000
5. National Arboretum Security	
Washington, D.C.	250,000
6. Research on Acid Precipitation	
Beltsville, Maryland	169,000
University Park, Pennsylvania	200,000
Raleigh, North Carolina	500,000
Total, Research on Acid Precipitation	869,000

Item of Increase

7. Research on the Conservation and Use of Land & Water Resources

Salinity Control	Amount
Ft. Collins, Colorado	$100,000
Kimberly, Idaho	100,000
Riverside, California	300,000
Phoenix, Arizona	100,000
Total, Salinity Control	600,000
Resource Conservation Act	
St. Paul, Minnesota	100,000
Temple, Texas	150,000
Watkinsville, Georgia	200,000
Sidney, Montana	100,000
Oxford, Mississippi	200,000
Bushland, Texas	150,000
Ames, Iowa	100,000
Mandan, North Dakota	150,000
Lincoln, Nebraska	100,000
W. Lafayette, Indiana	150,000
Pendleton, Oregon	100,000
Manhattan, Kansas	150,000
Tucson, Arizona	100,000
Morris, Minnesota	100,000
Lubbock/Big Springs, Texas	100,000
Ft. Collins, Colorado	150,000
Auburn, Alabama	100,000
Coshocton, Ohio	100,000
Akron, Colorado	50,000
Pullman, Washington	150,000
Wyndmoor, Pennsylvania	100,000
Beckley, West Virginia	100,000
TBD	200,000
Total, Resource Conservation Act	2,900,000
Water Use Efficiency	
Kimberly, Idaho	200,000
Bushland, Texas	100,000
Phoenix, Arizona	100,000
Florence, South Carolina	100,000
Fresno, California	150,000
Ft. Collins, Colorado	100,000
Boise, Idaho	100,000
Mandan, North Dakota	50,000
Tifton, Georgia	100,000
Weslaco, Texas	50,000
Prosser, Washington	50,000
Akron, Colorado	50,000
Lafayette, Indiana	100,000
Oxford, Mississippi	150,000
Temple, Texas	100,000
Pullman, Washington	100,000
Total, Water Use Efficiency	1,600,000
Total, Research on the Conservation and Use of Land & Water Resources	5,100,000

Item of Increase	Amount
8. Human Nutrition Research San Francisco, California	$1,000,000

INFORMATION STAFF

Question: What is the current number of positions and dollar level associated with the Information Staff of the Agricultural Research Service. How many of these staff are located in Washington and how many in field locations?

Answer: The current number of staff-years associated with Agricultural Research Service Information Staff is 76.3. There are 40.3 staff-years in the field locations and 36.0 located in Washington, D.C. The funding level for this activity is $2,766,324 for fiscal year 1982.

STAFFING OF AGRICULTURAL RESEARCH SERVICE FACILITIES

Question: Please provide a current listing of lab locations and the current percentage utilization of those facilities and the proposed utilization for FY 1983.

Answer: We will be glad to furnish the information requested.
(The information follows:)

STATUS OF STAFFING OF AGRICULTURAL RESEARCH SERVICE FACILITIES
As of October 31, 1981
(Expressed in terms of scientific personnel)

Location	Total Capacity (Scientist)	Total in Use (Scientist)	Percent Staffed
Alabama:			
Auburn	14	14	100
Arizona:			
Phoenix	35	28	80
Tucson	29	29	100
California:			
Albany	175	134	77
Fresno	32	30	94
Pasadena	14	12	86
Riverside	28	26	93
Salinas	15	12	80
San Francisco	18	11	61
Shafter	13	12	92
Colorado:			
Denver	11	11	100
Ft. Collins	34	34	100
District of Columbia	35	32	91

Location	Total Capacity (Scientist)	Total in Use (Scientist)	Percent Staffed
Florida:			
Gainesville	62	56	90
Miami	11	7	64
Orlando	22	20	90
Winter Haven	16	12	75
Georgia:			
Athens	118	108	91
Byron	24	13	54
Dawson	15	9	60
Savannah	29	23	79
Tifton	22	18	82
Watkinsville	18	10	56
Idaho:			
Dubois	10	9	90
Kimberly	27	27	100
Illinois:			
Peoria	180	161	89
Iowa:			
Ames	130	105	81
Kansas:			
Manhattan	47	27	57
Louisiana:			
Baton Rouge	19	10	53
Houma	11	11	100
New Orleans	185	138	75
Maryland:			
Beltsville	592	531	90
Frederick	26	21	81
Hyattsville	10	10	100
Michigan:			
East Lansing	11	10	91
Minnesota:			
Morris	15	10	67
St. Paul	10	6	60
Mississippi:			
Oxford	25	22	88
State College	45	31	69
Stoneville	55	41	75
Missouri:			
Columbia	17	17	100
Montana:			
Miles City	10	9	90
Sidney	11	9	82

Location	Total Capacity (Scientist)	Total in Use (Scientist)	Percent Staffed
Nebraska:			
Clay Center	67	35	52
New York:			
Greenport	53	35	66
Ithaca	21	18	86
North Carolina:			
Oxford	16	13	81
Raleigh	18	14	78
North Dakota:			
Fargo	56	56	100
Grand Forks	12	12	100
Mandan	20	20	100
Oklahoma:			
Durant	12	11	92
El Reno	10	9	90
Stillwater	11	11	100
Woodward	10	5	50
Oregon:			
Pendleton	13	13	100
Corvallis	11	11	100
Pennsylvania:			
University Park	23	23	100
Wyndmoor	170	153	90
Puerto Rico:			
Mayaquez	10	8	80
South Carolina:			
Charleston	14	12	86
Florence	11	11	100
South Dakota:			
Brookings	17	12	71
Texas:			
Brownsville	15	7	47
Bushland	22	19	86
College Station	64	48	75
Kerrville	14	13	93
Temple	29	29	100
Weslaco	37	37	100
Utah:			
Logan	20	20	100
Washington:			
Yakima	22	16	73
Wenatchee	15	12	80
West Virginia:			
Beckley	20	8	40
Kearneysville	25	12	48

Location	Total Capacity (Scientist)	Total in Use (Scientist)	Percent Staffed
Wisconsin: Madison	19	7	37
Subtotal, (74 Locations with capacity of 10 or more scientists)..	3,103	2,576	83
All other locations (40 with capacity of less than 10 scientists).........	191	147	77
Total, Federal Facilities.........	3,294	2,723	83

Number of Non-ARS Scientists included above..	317
Number of ARS Scientist included above:	
ARS Senior Scientists (GS-11 and above).....	2,198
ARS Junior Scientists (Below GS-11).........	208
Total..................................	2,723

ENERGY RESEARCH CENTER

Question: What is the level of funding being proposed for support of work at the on-farm energy research center at the University of Missouri and how does this compare with funds provided in FY 1982?

Answer: In FY 1982, the Sourthern Agricultural Energy Center, Tifton, Georgia, provides funding of $100,000 to enhance a satellite project on the generation and utilization of methane from swine waste at Columbia, Missouri. We expect this research project to continue at the same level of funding in FY 1983.

TOBACCO RESEARCH

Question: Please provide, by location, a breakdown of Federally - supported tobacco research proposed for FY 1983 and what portion of that research will be related to health research?

Answer: We gladly provide the information as follows:

ARS Tobacco Research

Location	Type of Research	FY 1983 Estimate in Thousands
Beltsville, MD	Health and Safety	$ 877
Gainesville, FL	Marketing	19
Tifton, GA	Health and Safety	48
Raleigh, NC	Marketing	71
	Health and Safety	96
	Subtotal, Raleigh	167
Oxford, NC	Health and Safety	1,391
Greenville, TN	Health and Safety	95
Lexington, KY	Health and Safety	833
Richmond, VA	Marketing	226
Athens, GA	Health and Safety	1,026
Extramural	Health and Safety	600
TOTAL, Tobacco Research		$5,282

QUESTIONS SUBMITTED BY SENATOR CHILES

POST-HARVEST RESEARCH

Question: While a considerable research effort has been exerted for citrus in its pre-harvest phase, not so much attention has been given to the post-harvest research effort. These post-harvest research aspects include citrus handling, packaging, storage and shipping as well as citrus pathology and physiology.

The Market Quality/Transportation Research Unit of the U.S. Horticultural Research Laboratory at Orlando has been a leader in the post-harvest research area, but over the years its funding has not kept pace with inflation and it is now operating with fewer research personnel and resources.

Do you consider post-harvest research important? Why?

Answer: ARS considers post-harvest research very important, especially in the area of maintaining quality and reducing losses of agricultural commodities in the domestic and export marketing channels. Analyses have shown that biological and physical losses incurred by fresh fruits and vegetables in operations after harvest amount to between 15 and 40 percent, depending on commodity. A one-year study showed that in New York City alone, 16.6 million pounds of U.S. oranges were lost at the retail and consumer levels. In export markets, post-harvest losses are much higher.

The Market Quality and Transportation Research Unit at Orlando has accomplished some outstanding research in recent years relating to the development of technologies for defining and maintaining product quality development of techniques to reduce physical damage to products during distribution and marketing and development of treatments and practices that prevent or reduce losses caused by microorganisms while complying with importer regulations on chemical residue tolerances. ARS post-harvest research applies to national and international research goals, the research program at Orlando will continue to be supported within the limits of available funds.

Question: Do we stand to forego or lose foreign citrus marketing opportunities without adequate post-harvest research efforts?

Answer: Most of the leading citrus-producing countries of the world are in direct competition with U.S. citrus industries and they are ready to fill any gap caused by a reduction in U.S. exports. Evidence of this is what happens after every severe freeze in citrus production areas in this country and reduced citrus exports. Most of the leading foreign citrus exporters have offices and personnel to handle marketing functions throughout the world and they are prepared to take advantage of any such situation. ARS post-harvest research findings at Orlando have provided a few advantages to the U.S. citrus export posture.

Without a strong citrus post-harvest research program, new technology would not have been developed in time to keep up with the great changes in the marketplace. For example, the cold treatment alternative to ethylene dibromide fumigation would not have been developed or evaluated. In order for the U.S. to maintain or increase current levels of exports, post-harvest research will need to be sustained.

Question: Could you detail funding and staffing levels for the Market Quality/Transportation Research Unit over the last five years?

Answer: A summary of the appropriated dollars for the Market Quality and Transportation Unit, net to location, and staffing is as follows:

Year	Net funds to location	Scientist years*	Support years*	Total staffing
1979	$434,300	6	9	15
1980	400,600	5	7	12
1981	480,100	5	7	12
1982	442,100	4	7	11
1983	463,800	4	7	11

*Scientist years--one scientist employed full-time for one year.
Support years--one technician employed full-time for one year.

Question: Are current and projected funding levels adequate to complete ongoing projects at the unit including the intransit cold sterilization project and the intransit handling and packaging of fruit to Europe project?

Answer: All current studies will be completed; however, current activities will be in relation to current resources. Considerable work remains to be done on improving marketing of fresh Florida citrus in Europe. This will take time. Currently, about 15 percent of the resources available to the research unit are for all operating costs of the five scientists. This level of operations has constrained purchase of new equipment and instrumentation and the number of experimental shipments made. By depending heavily on cooperation with various components of the citrus industry, we expect to be able to complete ongoing projects.

Question: Does this facility have the funding to carry out basic pathology and physiology research relating to citrus shipments to Europe and Japan?

Answer: No, current funding will not support a pathologist and a physiologist to conduct these basic investigations. Currently, the pathologists and physiologists at Orlando are primarily engaged in research on production problems.

Question: Important post-harvest research in the citrus processing area is currently taking place at the U.S. Citrus and Subtropical Products Laboratory at Winter Haven.

Could you provide me with a staffing and funding history for this station over the last five years?

Answer: There has been a slight increase in funding over the last 5 years, but a slight decline in staffing. The information on funding and staffing is as follows:

Year	Net funds to locations	Scientist years	Support	Total staffing
1979	$654,000	13	9	22
1980	636,000	11	8	19
1981	668,000	12	8	20
1982	739,000	12	5	17
1983	777,000	12	5	17

Question: Are the projected funding and staffing levels for Fiscal Year 1983 and beyond adequate to continue such important research as citrus cold-hardiness and use of freeze-damaged fruit for processing?

Answer: The Laboratory has recently developed information relating to certain chemical components within the leaf and other parts of the citrus tree that affect cold hardiness or the tree's ability to withstand freezing temperatures. These studies were conducted through cooperative work with the USDA Horticultural Laboratory in Orlando and promising leads have been uncovered. Also studied were ways to use freeze-damaged fruit. A low-level effort on cold hardiness and freeze-damaged fruit is being sustained.

Question: Are they adequate to carry out other research programs of the unit?

Answer: Yes, we will continue to conduct research on possible causes of citrus blight and its effect on citrus products; ethylene dibromide fumigation research and alternative research methods including irradiation treatments; testing procedures for bitterness, nutrients, and other undesirable attributes which tend to lower quality of citrus products; and other research relating to post harvest problems.

Question: In compliance with the Committee's report language, ARS has indicated that additional resources will be devoted to research on the West Indian sugarcane borer, specifically on the nematode parasite, and on pheromones. Could you specify the level of additional resources committed to this research program?

Answer: We plan to commit an additional $50,000 for research on the nematode parasite and pheromones of the West Indian sugarcane borer.

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

DAIRY FORAGE RESEARCH CENTER

Question: As I visited with dairy farmers in Wisconsin recently, they conveyed to me the grave concern for their economic future brought about by the severe cost/price squeeze they are experiencing and will face as milk support programs are changed. Dr. Kinney, how much of the increase in requested funding for Fiscal Year 1983 is in support of research to alleviate this serious problem facing our nation's family dairy farmers?

Answer: The FY 83 budget for ARS contains over three million dollars in increases for research in areas directly related to dairy cattle. The request includes $200,000 for the U.S. Dairy Forage Research Center, Madison, WI, as well as increases for nutrition, reproduction, milk secretion, mastitis, and other disease and protection research at other locations. Research in these areas directly impacts on the problems facing the nation's dairy farmers. The $3 million in increases for dairy-related research asked for in FY 83 represents over 40% of the total increases for research to improve the efficiency of animal production.

Question: Being an animal scientist, Dr. Kinney, I am sure you will appreciate that feed costs represent a large proportion of the total cost of milk production. How much of the increase in requested funding for Fiscal Year 1983 would be used in support of research to reduce feed costs of dairy operations?

Answer: About $500,000 would be directly devoted to research to reduce feed costs. In addition, the increases for research on diseases, insects, and parasites will help improve feed efficiency.

Question: The U.S. Dairy Forage Research Center program is aimed specifically at developing new technology to enable dairy farmers to increase the use of forages in their operations and thereby reduce feed costs. I recall our being at the dedication of this Center in June 1981. You were quoted in the press as saying "I pledge to do everything I possibly can to make this laboratory one of the most important contributors to the improvement of dairy efficiency in the United States." Do you still consider the development of the Center's research program at as high a priority as these remarks imply?

If so, what level of increase funding was identified for the Center as you developed your Agency's Fiscal Year 1983 Budget?

Answer: Yes, I do consider the development of the Center's research program as a high priority. However, we have many high priority needs in ARS. Our mission requires us to give all areas of agricultural production due consideration. We make every attempt to deal with each of the areas to the best of our ability. Early in the development process for the FY 83 budget we were asking for more than the $200,000 increase that appears in the budget as it now stands. We had to trim back the asked for amount, as well as other high priority askings, as the budget development process proceeded. The $200,000 increase would bring the total FY 83 budget for the Madison facility to $2,318,000.

Question: The Jan.-Feb., 1982 issue of Agriculture Research featured the U.S. Dairy Forage Research Center as the hub of of dairy/forage research for the north-central and northeastern parts of the U.S. where 70 percent of the milk is produced. At the present time, or Fiscal Year 1982, the funding level for the Center is only at approximately one-fourth or one-third the projected program level. What plans do you have to fund this critically important program at the fully operational level?

Answer: We will continue to increase the funding and expand the program as rapidly as possible,but must recognize budget constraints and the necessity for dealing with other critically important programs. With a steady increase of funding, we would hope to reach the projected program level in the near future. Certainly it is our intent to eventually have full staffing and a fully operational research facility.

Question: We are all concerned about the costs of administering public programs. Of the $42,870,000 of increase funds request in the Fiscal Year 1983 budget, how much will actually reach the performing scientists?

Answer: Of the proposed increase, about $37.6 million or 88% will be implemented for research at the location. The 14% assessment for central administrative and management functions is not applied to pay costs.

Question: Although you do not identify such costs as a line item in your budget, it is my understanding that normally 14 percent of the agency appropriations are withheld to fund administrative or management functions. Considering that these funds are appropriated primarily for research activities, why do the administrative costs not decline percentagewise as appropriations increase?

Answer: Approximately 14 percent of the funds available to Agricultural Research Service are assessed to provide for the program and administrative management and support essential to conduct an effective Federal nationwide in-house research program. The 14 percent rate is verified semiannually and is a supportable percentage based on actual costs incurred in program planning and direction and program administration performed in Headquarters, Regional and Area offices. Overall, costs associated with effective program and administrative management have been increasing. Costs and expenses associated with space utilization alone, as charged by GSA, are escalating at an alarming rate; other costs associated with salaries, supplies, printing, equipment and automation continue to increase.

Significant indirect program costs are financed through this assessment rate. USDA centralized expenses, sizable in amount, such as official postage, Federal telephone expenses, printing, unemployment compensation, services of the National Finance Center, etc, are charged to the agencies by the Department. These costs are paid from this 14 percent assessment although they derive in part from our program activities in the field.

Special agency charges to cover a variety of expenses relative to the ARS program are also paid from the 14 percent asessment. Special research studies and attendance at specific professional symposia, which vary from year to year, are examples of these additional costs.

The ARS reorganization of 1972 documented a reduction in overhead costs. In FY 1979 ARS further reduced its assessment from 15.2% to 14%. ARS has not deviated from the practice of focusing on the needs of program as its first priority. The relative constancy of the assessment rate in recent years is indicative of our attempt to reduce overhead costs and maximize research productivity.

Question: How would it be possible to reduce administrative costs to more reasonable levels such as 5 to 7 percent of appropriated funds?

Answer: It is important to note that the ARS assessment of 14 percent represents a mechanism to handle Indirect Program Support costs and not simply administrative costs. The ARS 14% Federal Administration set-aside reflects the total cost of planning, directing and administering the Federal nationwide in-house research program. The 14% rate is verified semi-annually and is a supportable percentage based on actual costs incurred in program planning and direction, and program administration performed in Headquarters, Regional and Area offices.

The word "overhead" can be misleading. There is no universal rule for determining the label to be attached to particular cost components of a research program. Variances in accounting practice and management structure make comparisons of indirect costs difficult at best. The ARS Federal assessment covers certain costs directly generated by the research program, certain expenses necessary to the planning of the research, and other costs which in traditional terms would be labelled "administrative overhead". To the extent possible ARS makes every effort to minimize the administrative overhead inherent in the conduct of its complex research program. An unjustified reduction in the assessment rate could cripple the agency's ability to effectively manage and support research projects.

COOPERATIVE STATE RESEARCH SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

COMPETITIVE RESEARCH GRANTS

Question: The Competitive Research Grants promote increased basic research by obtaining the participation of research scientists throughout the entire United States scientific community. Describe the planned $19.9 million plant science program including the research to be initiated in the area of plant metabolism and environmental stresses.

Answer: The Competitive Research Grants plant science programs can be described as follows:

Biological Stress on Plants. Plants are exposed to many stresses that may adversely affect their productivity and usefulness to man. This grants program will support research on stresses on plants arising from their interactions with other plants or with other biological agents such as weeds, insects, nematodes, fungi, bacteria, viruses, and mycoplasma-like organisms. The ultimate goal of the research supported in this area is to reduce losses in plant productivity from damage caused by biologically generated stresses.

Genetic Mechanisms for Crop Improvement. The major aim of this program area is to encourage innovative or unique genetic approaches directed to the development of genetically superior varieties of agricultural crops. The approaches should be aimed at obtaining novel genetic combinations or gene modifications difficult or impossible to achieve using conventional plant breeding techniques.

Biological Nitrogen Fixation. The most common limiting nutrient for plant growth is nitrogen. The presence of soil nitrogen is due to past accretions in nature, biological nitrogen fixation or the application of nitrogenous fertilizer. The latter represents a significant energy input in cropping and ultimately increases food costs. Thus, the enhancement of biological nitrogen fixation capacity in plant-soil microbial associations is of major importance. Research aimed at understanding nitrogen fixing mechanisms and related nitrogen metabolism in both symbiotic and free living organisms as well as the fate of fixed nitrogen is of high priority.

Photosynthesis. There are many indications that productivity of crop plants may be enhanced by increasing their photosynthetic efficiency. Basic research which provides greater understanding of limiting processes of photosynthesis and associated carbon metabolism will help guide how increased crop productivity might be achieved.

Plant Metabolism and Environmental Stress. The environment limits plant growth and crop production by stresses of chemical and physical types. Limitations or excess of water and nutrients as well as extremes of temperature can derange plant metabolism, disrupt cell structure and diminish or prevent plant growth. The new program will seek to identify the point within the plant where these stresses limit plant growth and to identify the ways in which plants adapt to these stresses.

Question: What target areas will be addressed?

Answer: Research support in each of the plant science programs will be targeted as follows:

Biological Stress on Plants. The program area will emphasize studies that enhance our understanding of (a) how stressful interactions are established between plants and other biological agents; (b) how such interactions are influenced by environmental and other factors inherent to the interacting organisms; (c) how the interactions reduce plant productivity and usefulness to man; (d) how plants react to stresses generated by such interactions; and (e) how damage from such interactions may be reduced or eliminated. The interactions may be studied at any number of levels: i.e., populations, organismal, cellular and molecular; and by various approaches including genetics, molecular biology, and biochemistry. These may include studies on plants separated from stress-causing organisms or on stress-causing organisms separated from their target plants. However, such studies should provide information that will be relevant to the understanding of the causes, consequences, and avoidance of biologically generated stresses on plants. The research supported in this program area will focus on the identification of new approaches that will be both effective and compatible with social and environmental concerns.

Genetic Mechanisms for Crop Improvement. This research area will emphasize the following: (a) cell culture studies including the regeneration of plants from single cells, cell/protoplast fusion, mutagenesis, and incorporation of foreign DNA, chromosome, or organelle; (b) development of effective cellular and molecular methods for identification of plant characteristics or genes which are significant targets for genetic manipulation; (c) development of methods of producing, selecting, and transferring desired genetic traits including both qualitative and quantitative traits; (d) acquisition of basic information on nuclear and organelle plant gene expression and diversity at the molecular, cellular, or developmental level to facilitate application to plant improvement; and (e) basic genetic studies on maintenance, alteration, and utilization of unadapted and wild germplasm. Proposals to conduct well-defined basic plant genetic studies in support of plant breeding programs and designed to improve understanding of basic genetic mechanisms of the crop are encouraged.

Biological Nitrogen Fixation. Examples of research encompassed in this program area include: (a) structure and mechanism of action of nitrogenase; the regulation of nitrogenase activity and synthesis, the relationship between nitrogenase and hydrogenase activities in nitrogen fixing organisms; (b) energetics of the nitrogen fixation process including competitive processes within the plant; (c) infection by Rhizobium and conditions for effective nodulations; basis of the recognition process between symbiotic organisms; factors controlling symbiont specificity; competition in the soil; (d) study of the nitrogen fixing capabilities of Actinomycetes, Azospirillum ssp., Cyanobacteria and other organisms potentially important to supplying nitrogen needs of plants; (e) relation between the fixation process and the processes of assimilation, nitrification and denitrification; (f) the development of methods for the in situ measurement of nitrification and denitrification, and determination of the actual extent of those processes in nature; (g) an analysis of the distribution of denitrifying and nitrifying bacteria and elucidation of control mechanisms operative on nitrogen transformations in the major species; (h) studies of the metabolism of fixed nitrogen including the enzymes involved in the assimilation and dissimilation of fixed nitrogen in bacteria and crop plants and the partitioning of fixed nitrogen into various gene products or plant organs; and (i) the efficiency of nitrogen utilization by crop plants in the production of food proteins.

Photosynthesis. Research will emphasize the following major subareas: (a) aspects of photosynthetic energy conversion including such areas as early events in photon capture by photosynthetic systems and the mechanisms of charge separation, the structure and function of photosynthetic membranes and membrane constituents, and the associated chemical and physical reactions; (b) photosynthetic carbon assimilation including CO_2 fixation, biochemistry of photosynthetic pathways, photorespiration, and aspects of cellular metabolism regulating these reactions; (c) control of photosynthate partitioning and translocation by hormones or other metabolic factors; (d) factors controlling development and senescence of photosynthetic competence; (e) genetic and cellular manipulation to improve photosynthetic efficiency in plants including studies of the chloroplast genome, of nuclear genes regulating photosynthesis, and analysis of regulatory steps controlling both nuclear and cytoplasmic genome expression and their interactions; and (f) the photosynthetic process in leaves and whole plants including but not limited to involvement of the stomatal aperture, and water and temperature extremes.

Plant Metabolism and Environmental Stress. Research will be initiated on how stresses like excess or limited water or nutrients, and extremes of temperature alter such fundamental processes as photosynthesis, nitrogen fixation, metabolism and growth. The influence of stress on processes of chemical conversion or the generation of cell structure will be examined and methods for introducing these defense mechanisms into conventional crop species will be sought.

Question: What areas are added from the program carried out in FY 1982?

Answer: The four plant science programs: Biological Stress on Plants, Genetic Mechanisms for Crop Improvement, Biological Nitrogen Fixation, and Photosynthesis are areas supported by Competitive Research Grants since 1978. These programs support basic research which must be sustained over a period of ten to twenty years in order to solve the problems and achieve maximum benefit from the work. The target areas within each program area are altered each year to follow the best opportunities and most effective techniques as they emerge from the research.

Research in the new program area of plant metabolism as influenced by environmental stresses will be initiated with increased funds proposed in FY 1983.

Question: This program was initiated in 1978 and has provided emphasis to basic plant science and human nutrition research. What are some examples of results or accomplishments from these grants?

Answer: The following are examples of the research progress in each of the five program areas:

Human Nutrition. Zinc is an essential trace element for growth and maintenance of health in man. Recent evidence suggests that mild degrees of zinc deficiency, attributable to inadequate dietary zinc intake and/or poor bioavailability, are quite common in this country. Several research projects are examining various aspects of zinc nutrition. For years parents, public health personnel, and pediatricians have been concerned about children who fail to eat normally and whose growth and development are greatly retarded. A study at the Medical College at the University of Colorado has demonstrated that a very small amount of zinc is at least one of the key factors in maintenance of a normal appetite in these children. In a double blind trial with children whose growth falls in the lowest 10 percent of the standard growth chart and who had low hair and plasma zinc levels, dramatic appetite responses have occurred in these children when given a zinc supplement. Significantly higher height growth was also observed in the zinc supplemented children after one year of study compared to the unsupplemented children.

Genetic Mechanisms for Crop Improvement. An area of plant genetic research that has experienced rapid advances in recent years is plant molecular biology. Specific examples of progress can be found in a series of recent reports on the elucidation of the DNA sequences for several important plant genes. DNA sequences are fundamental in our understanding of how information coded by each plant gene is translated into individual proteins and how that process is regulated in the plant cell. The plant genes being studied include genes that code for several kinds of seed storage proteins and for proteins involved in photosynthesis, plant development, and metabolism.

Biological Stress on Plants. Plant root parasites are a unique group of organisms that attach to their host by means of a root-like structure, the haustorium. Certain stages in the parasitism process require start signals from the host plant. Researchers at the University of Virginia have isolated and characterized two chemical compounds that trigger haustorial induction. Knowledge of the chemistry and biology of host recognition may give insight into new chemical control methods.

Biological Nitrogen Fixation. A very important accomplishment in the field of biological nitrogen fixation has been the cloning of the 17 identified genes for nitrogen fixation in the bacterium, Klebsiella pneumoniae. The sequencing of one of these, the structural gene for one of the two components of nitrogenase, the enzyme responsible for the reduction of molecular nitrogen to a form utilizable by the plant, has been funded by this program. The previous cloning of the 17 genes by an investigator at Harvard University has opened a new avenue for research on this enzyme. This program presently supports the collaborative effort at Harvard University and Massachusetts Institute of Technology to construct a set of recombinant DNA plasmids which produce large quantities of the products of four of these genes and to determine their function.

Photosynthesis. A general indication of progress in the Photosynthesis Program is the increase in the number of refereed papers published by grantees presenting new knowledge. Of the many journals utilized, one (Plant Physiology) can be used as an example. In 1979, the first year of the program, 3 papers; in 1980, 13 papers; in 1981, 20 papers. Similar evidence is at hand from the other programs. A specific example of published progress in photosynthesis research is a study of the influence of chilling temperature in highly chill-sensitive plants, using tomato as a test plant. An investigator at the University of Illinois was able to distinguish quantitatively two effects: one, the slowing down of carbon dioxide passage through the leaf pores, and the other the inhibition of the reactions of photosynthesis itself within the leaf cells. Both effects require several days to recover and irreversibly slow the production of tomatoes. He has shown that improvements in cool temperature tolerance would require both adaptations in leaf pore response and in photosynthetic reactions.

Question: Was any consideration given to funding basic research in the animal science area?

Answer: Consideration has been given to Competitive Research Grants to support basic research in animal science. However, the Administration has not requested funding for the animal sciences because the overall funding level for the Competitive Research Grants has not been enough to adequately maintain the current research categories. If such a program were funded for Competitive Research Grants, it would be open to applicants from the broad spectrum of institutions that had been mandated by the Congress.

Question: Will any new research programs be initiated if this increase is allowed?

Answer: The program in Plant Metabolism and Environmental Stress is the one new program to be initiated if increased funding for Competitive Research Grants is appropriated.

Question: How many applications or proposals were received in FY 1981? From these, how many grants were made, for what amount and to what type of research organization did they go?

Competitive Research Grants
Fiscal Year 1981

	Proposals Received	Dollars Requested	Grants Awarded	Dollars Awarded
Plant Biology				
Biological Stress	259	$38,696,150	55	$3,395,000
Genetic Mechanisms	168	30,706,676	55	3,395,000
Nitrogen Fixation	101	17,964,787	31	2,910,000
Photosynthesis	96	15,237,010	38	2,910,000
Subtotal	624	102,604,623	179	12,610,000
Human Nutrition				
Nutrient Requirements	169	36,717,301	28	2,910,000
TOTAL	793	139,321,924	207	15,520,000

	Proposals Received	Dollars Requested	Grants Awarded	Dollars Awarded
Land-Grant Universities	513	$84,816,141	142	$10,161,200
SAES	(437)	(70,998,465)	(115)	(8,120,100)
Non-SAES	(76)	(13,817,676)	(27)	(2,041,100)
Land-Grant 1890	6	875,354	—	—
Private Universities	79	17,529,530	25	2,137,000
Public Universities	117	22,740,285	20	1,553,800
Federal Laboratories	2	217,346	—	--
USDA/ARS	37	5,131,038	9	660,000
Private Non-Profit	32	7,186,067	9	791,000
Private Profit	4	530,253	1	142,000
State and Local Agencies	1	107,003	1	75,000
Other Public Foundation	1	30,554	--	—
Veterinary Colleges	1	158,353	--	--
TOTAL	793	139,321,924	207	15,520,000

Question: When will the FY 1982 grants be made?

Answer: Grants for fiscal year 1982 will be awarded by September 30, 1982.

FEDERAL ADMINISTRATION

Question: In your statement you indicate that "certain aspects of the roles and functions required of CSRS are proposed for reduction in scope." What is the purpose of this reduction?

Answer: The decrease reflects the administration's proposed refocusing of CSRS to provide more national leadership and less program oversight with respect to the formula funded programs.

PERSONNEL REDUCTION

Question: You are proposing to decrease your Washington staff by 30 percent in Fiscal Year 1983. What is the purpose of this reduction?

Answer: The decrease in Washington staff parallels the proposed changes in roles and functions of CSRS.

McINTIRE-STENNIS COOPERATIVE FORESTRY RESEARCH

Question: You are proposing a decrease of $1,224,000 for cooperative forestry research. Please describe this program to us.

Answer: The McIntire-Stennis Cooperative Forestry Research program is a formula funded program supporting research efforts in sixty research institutions. The federal formula apportions money on the basis of three items: the acreage of non-federal commercial timber land within the state, the annual timber cut in the state, and the annual amount of non-federal funds supporting the forestry and associated rangeland research effort in the state. The program has been funded since 1964 and represents a productive forestry research effort including active participation by forestry graduate students. Approximately 625 scientist years were involved in the cooperative forestry research program in 1980.

Question: What effect will this cut have?

Answer: The reduction in funds will result in changes in allocations to all states. The greatest decrease in a state would be $44,000 and the smallest decrease would be $25,000 in Federal funds. This reduction in funds will reduce the amount of research. It is anticipated that State institutions will determine their highest priority research projects and shift funding to these from those they consider to be of lower priority.

Question: Will any of these efforts be picked up by the Forest Service?

Answer: The proposed research budget of the Forest Service has been reduced by approximately the same percentage as the proposed level of funding for McIntire-Stennis in fiscal year 1983. Rather than receive additional funding from Forest Service, the universities may experience a further reduction in research funding because many universities conduct research supported by Forest Service funds.

Question: This McIntire-Stennis formula program usually parallels the Hatch Act. What prompted the decision to decrease this research?

Answer: Consideration given to the Hatch Act and the McIntire-Stennis formula programs has generally been comparable. Although the McIntire-Stennis program is a critical component of CSRS and university research programs, within budgetary constraints other research areas were considered of higher priority.

IPM-CONSORTIUM

Question: You are proposing a decrease in the budget of the integrated pest management consortium of State Agricultural Experiment Stations affiliated with land-grant universities. Is this project now completely funded by CSRS?

Answer: Yes, the $3,091,000 appropriated in fiscal year 1982 for this research under the Special Research Grants program is the total Federal funding.

Question: Will the requested amount sustain the original objectives of the project?

Answer: The original objectives of the project will be continued; however, the level of effort in each will be proportionally reduced, within the $2,611,000 funding proposed in fiscal year 1983.

Question: What will be the effect of this cut?

Answer: The proposed cut will cause a decrease in the research efforts of the project and delay the transfer of the results to the grower.

Question: Will it affect current staffing levels at State Agricultural Experiment Stations?

Answer: Each participating institution will have to decide how to accommodate this proposed reduction in funding. This could be done through various means including reduced technical support, reducing the time the project leader devotes to the project, reducing supplies and materials. They also have the option of supporting the research from non-Federal sources as they reassess their research priorities.

ANIMAL HEALTH AND DISEASE RESEARCH

Question: Again this year, the Administration has eliminated the funds for Animal Health and Disease Research under Section 1433. How many institutions will be participating or receiving funds in FY 1982 under Section 1433?

Answer: Seventy-nine institutions are receiving Section 1433 funds in Fiscal Year 1982. This includes 27 Schools or Colleges of Veterinary Medicine, 51 State Agricultural Experiment Stations and one College of Medicine. Funding for the latter institution, Johns Hopkins University, terminated on December 22, 1981, upon enactment of Public Law 97-98, the Agriculture and Food Act of 1981. This Act limits eligibility for the Section 1433 Program to Schools and Colleges of Veterinary Medicine and State Agricultural Experiment Stations.

Question: Will any new institutions be eligible to participate?

Answer: No. All of the institutions that are eligible for Section 1433 funds in Fiscal Year 1982 have participated in the program previously.

SPECIAL RESEARCH GRANTS

Question: A decrease of $3,455,000 is proposed in the FY 1983 budget for Special Research grants. You have indicated that these changes will reduce the level of funding or terminate funding of specific areas. Please explain the consequences of these cuts for each project should these reductions be approved.

Answer: No funds are proposed in fiscal year 1983 for the following state-specific areas of research for which funds were appropriated in 1982, therefore, no grants will be awarded for this research:

Dried bean research in North Dakota
Soybean cyst nematode research in Missouri
Bean and beet research in Michigan
Aquaculture at Stoneville, Mississippi
Dairy photoperiod research in Michigan
Bean flour research at Texas and Michigan
Peach tree short life, South Carolina
Blueberry shoestring virus, Michigan
Control of perennial weeds, Stoneville, Mississippi
Mosquito research, riceland agroecosystem
Small farm research center study, Oklahoma
Sunflower midge, North Dakota
TCK smut (wheat)

In fiscal year 1982, $3,091,000 was appropriated to fund a 15-university consortium on integrated pest management. The fiscal year 1983 budget proposes a decrease of $480,000. This decrease will reduce the level of effort of this research.

In fiscal year 1982, $960,000 was appropriated for energy research. The request for proposals has been announced in the Federal Register and projects to be supported will be selected on a competitive basis. No funds are proposed for this research in fiscal year 1983.

This decrease of $3,455,000 proposes realignment of the research effort of this grant program. Prior funding under this program has already directed attention to these areas and the grants funded in 1982 and prior years will be used over a period of up to five years for completion of studies. The level of funding and the time period of support provided by these grants will yield important information. Amounts allotted to the States on a formula basis permit the State institutions to fund research in those areas that they identify as high priority and could be a possible source of funding for these programs if the States wish to continue the research.

PEACH TREE SHORT-LIFE RESEARCH

Question: In the 1982 appropriations the committee recommended $200,000 for peach tree short-life research to continue the multi-year program initiated in fiscal year 1981. No funds are proposed for this research in fiscal year 1983. Please outline the scope of this research in fiscal years 1981 and 1982. Why was this cut?

Answer: Fiscal year 1981 funds supported research aimed at developing a management system to regulate populations of nematodes involved in this disease. Research focused on orchard cover cropping species and orchard replacement timing as major approaches. Additional studies were conducted on water deficiency and soil moisture excess in predisposing peach trees to the problem.

Fiscal year 1982 funds are supporting research building on leads previously developed on cover cropping and soil environmental stresses. New work will refine the computer model analysis for tree replacement decision-making. New investigations will highlight nematode host plant range research, pruning techniques to minimize tree losses and searches for nematode-resistant peach rootstocks.

In view of the necessity for total Federal budget restraint, no funds are proposed in fiscal year 1983.

SUNFLOWER MIDGE

Question: The sunflower midge has become a serious problem in the Northern Great Plains and this committee included $75,000 for research under P. L. 89-106 in fiscal year 1982. Why are no funds proposed in this budget?

Answer: In fiscal year 1982, $72,000 was appropriated for sunflower midge research in North Dakota. A grant was awarded to the North Dakota Agricultural Experiment Station and research is being conducted on the efficacy and timing of insecticide applications, optional sunflower planting dates to avoid midge damage, and studies on the relative resistance of commercial hybrids to midge damage. No funds are proposed for fiscal year 1983 due to budgetary constraints.

TROPICAL AND SUBTROPICAL RESEARCH

Question: Tropical and subtropical research has been added to the Special Research Grants program. What research will be undertaken with this $3 million?

Answer: This research program, formerly managed by ARS, is aimed toward solving researchable food and agricultural issues or problems occurring in subtropical and tropical areas. Research would be focused on crop and animal productivity and protection, land and water resources for agricultural productivity, postharvest physiology and storage of crops, economics and marketing, and other areas if needed. The funds will be awarded to research proposals that are recommended by the Pacific Basin Advisory Group and the Caribbean Basin Advisory Group.

FACILITIES CONSTRUCTION PROGRAM AT THE 1890 COLLEGES AND TUSKEGEE INSTITUTE

Question: Section 1433 of the 1981 Farm Bill authorized funds for grants to upgrade 1890 land-grant college research facilities. An increase of $8,800,000 has been proposed for this program. Describe what is planned for this program.

Answer: The program is intended to provide contemporary buildings with associated laboratories, offices, equipment, and land to permit the institutions to pursue planned research. The lack of suitable and adequate facilities is the single largest obstacle inhibiting agricultural research in the 1890 institutions and Tuskegee.

Question: How many institutions could participate in the program?

Answer: Seventeen institutions will participate in the program, as follows:

Alabama A&M University
Normal, Alabama

Tuskegee Institute
Tuskegee Institute, Alabama

University of Arkansas
Pine Bluff, Arkansas

Delaware State College
Dover, Delaware

Florida A&M University
Tallahassee, Florida

Fort Valley State College
Fort Valley, Georgia

Kentucky State University
Frankfort, Kentucky

Southern University
Baton Rouge, Louisiana

University of Maryland - Eastern
Shore, Princess Anne, Maryland

Alcorn State University
Lorman, Mississippi

Lincoln University
Jefferson City, Missouri

North Carolina A&T State University
Greensboro, North Carolina

Langston University
Langston, Oklahoma

South Carolina State College
Orangeburg, South Carolina

Tennessee State University
Nashville, Tennessee

Prairie View A&M University
Prairie View, Texas

Virginia State University
Petersburg, Virginia

Question: How will selection of these grants be made?

Answer: At each institution, grant proposals for research facilities will be prepared that reflect the agricultural research program needs now and in the near future that will be pursued by the institution. Final selection of proposals to be funded will be done by the Administrator of CSRS.

Question: What would the selection criteria be?

Answer: Selection criteria at the institutional level would include the importance of the research to be conducted in the new facility; conformance of the research and the facility to institutional goals; intensity of anticipated use of the facility; engineering adequacy; and conformance to institutional, local, State, and Federal regulations.

Selection criteria in Cooperative State Research Service will include adequacy of the facility to fulfill anticipated research needs; relationship to present and future research; and conformance to administrative and legal requirements.

Question: What kind of time frame for selection are we talking about?

Answer: A number of factors are involved in the time frame for any proposal. CSRS has prepared a set of administrative guidelines that are now available in draft form. The institutions and various USDA offices are in the process of review and providing comment to CSRS. The guidelines will be finished prior to the start of fiscal year 1983 and the institutions will be thoroughly familiar with them.

CSRS will make planning funds available in the first year to those institutions that need such funds. There are facilities that require little planning, such as the purchase of land or of capital equipment; buildings require much more detailed planning. Some institutions already have candidate facilities planned and ready to send in; others have not yet initiated detailed plans.

Because the funds will be appropriated in one-year increments over a five-year time span, CSRS will request the institutions to submit a preliminary plan covering their anticipated needs with annual funding estimates for the total facilities program. This will create the flexibility necessary to commit the annual funds in a logical fashion in close collaboration with the involved institutions.

The time frame for final approval of any particular facility may be as short as several months and as long as five years.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

ANIMAL HEALTH AND DISEASE RESEARCH

Question: Once again you have requested no funding for Animal Health and Disease Research formula funding. You state that the annual level of appropriated funds has not been adequate to support a viable program across the eligible institutions.

I do not think that the schools who receive these funds feel that no money is better than too little. Last year you indicated that animal health research has excellent potential for very high returns for funds invested. Would it not be better to request an increase in these funds if that is necessary to make it a viable program?

Answer: It is a question of where the limited funds available can be utilized most effectively. We have reviewed our programs very closely in relation to overall priorities and constraints under the Fiscal Year 1983 Budget. Strong support for animal health and disease research will continue under the Hatch and Evans-Allen Colleges of 1890 formula funded research programs. Additionally, the Budget provides continued support under Special Research Grants in Animal Health for expanded or intensified research on the highest priority animal health and disease problems.

In FY 1982, over 85 percent of the institutions eligible for Section 1433 funding received less than $150,000. The cost of supporting one scientist year in food animal research is above $150,000. The limited funding available for most institutions has limited the effectiveness of this program.

Question: Do you have any figures on what the return has been to date?

Answer: The 1980 and 1981 Annual Reports of the Animal Health Science Advisory Board describe more than 100 examples of significant progress in animal health and disease research made thus far under the Section 1433 and Special Research Grant Programs. This progress includes major advancements in animal disease prevention such as the development of new or improved vaccines and other resistance enhancing mechanisms for brucellosis, mastitis, calf scours, anaplasmosis, swine dysentery, equine strangles and equine strongyle parasites; improvements in the diagnosis of bluetongue in cattle; and more specific and effective treatments for liver flukes and lead poisoning in cattle. As yet, no exact figures are available on the savings that have resulted from these many findings; however, we anticipate that their application will save millions of dollars annually in the prevention of animal disease losses.

HATCH ACT FUNDS

Question: You have requested about a 2.5% increase in Hatch Act funds to provide for increased operating costs. What percentage of the increased operating costs will the states have to come up with? Will this small increase mean that the states will actually have less money than last year?

Answer: The increase proposed for the Hatch Act will help offset the impact of inflation in the State agricultural experiment stations. At an estimated inflation rate for fiscal year 1983 of 6.5 percent, approximately 4 percent of the increased operating costs is not funded. On a fiscal year 1982 constant dollar basis, the States will actually have less funds in fiscal year 1983.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

COOPERATIVE STATE RESEARCH SERVICE

Question: Please describe current functions carried out by headquarters staff and those that would not be able to be continued under the proposed budget?

Answer: Cooperative State Research Service participates in a nationwide system of agricultural research program planning and coordination between the States and the U.S. Department of Agriculture which encourages and assists in the establishment and maintenance of cooperation within and among the States and between the States and their Federal research partners. This unique partnership arrangement exists in food and agricultural research between the Federal Government and the governments of the several States whereby the States have accepted and have supported research programs through appropriations and legislation dating back to the First Morrill Act of 1862, the Hatch Act of 1887 and the Second Morrill Act of 1890. This partnership has played a major role in the outstanding successes achieved in meeting the varied, dispersed, and in many cases, site-specific needs of American agriculture.

The program coordination and planning is carried out by a Cooperative State Research Service staff located in the Washington, D. C. area. The primary function is the administration of grants and payments to States to supplement State and local funding for agricultural research carried on by the State agricultural experiment stations of the 50 States, Puerto Rico, Guam, the Virgin Islands, the District of Columbia, American Samoa, and Micronesia; by approved schools of forestry; the 1890 land-grant institutions and Tuskegee Institute; colleges of veterinary medicine; and other eligible institutions.

We are currently examining the functions and staffing of CSRS in order to develop a plan which will best permit us to provide leadership in this nationwide system of agricultural research program planning and coordination between the States and the U.S. Department of Agriculture commensurate with the reduced personnel strength which has been proposed. At the present time this plan has not been completed.

In administration of the CSRS program of research under these restrictions, every effort will be made to maintain or strengthen those activities which support the Federal-State partnership. Policy formulation and national/regional program and budget planning will continue to receive highest priority. Essential functions will continue, but will be conducted in a manner commensurate with the reduced personnel strength, including:

Policy formulation - establishment of national administrative and program policies to guide the programs supported by separate Federal legislation which is developed in concert with the Experiment Station Committee on Organization and Policy (ESCOP).

Administration - interpretation and carrying out of Federal policies and regulations pertaining to research programs.

National/Regional program planning - active participation on national or regional research planning committees.

Budget development and program monitoring - State input to develop budgets that intermesh the Secretary's national research priorities and the State research priorities; monitoring of expenditures of Federal funds to assure appropriate usage.

Program approval - review of programs for compliance with authorizing legislation.

Special Research Grants and Competitive Research Grants - administration of peer panel process for review of research proposals under the competitive process; staff review of research proposals under the discretionary award process; monitoring of performance and expenditures.

Current thinking is that other functions will have to be severely limited or in some instances terminated. These would be program evaluation - level and cycle of onsite technical research reviews; CSRS representation to regional research technical committee meetings; management of pass-through funding to State institutions from other Federal agencies; response to public inquiries about research programs; and contracting out some activities of the Current Research Information System.

Question: I note that even though the headquarters staff is being reduced by about 30 percent, SLUC, equipment, communications, and supply costs for that decreased staff continue to increase. Would you please explain why this is the case.

Answer: As has been indicated, we are still in the process of examining the functions and staffing of CSRS in order to respond to this reduction. We have been given a ceiling of 136 full-time equivalent staff years in fiscal year 1982 and 95 in fiscal year 1983. In order to achieve the ceiling of 95 full-time equivalent staff years in fiscal year 1983, we will experience normal attrition and it may be necessary to have a reduction-in-force in fiscal year 1982. A restructured staffing plan has not yet been approved. In order to assure that all of the rights of employees are honored and to achieve an orderly transition, the space, equipment, communications and supply costs were projected at a level to adequately meet the needs of each employee while still employed.

In administering the CSRS program of research under these staffing restrictions, we will also need to plan on greater use of automated equipment to conduct our interactions with State institutions and on contracting out of some functions. Therefore, this will be reflected in the objects of expenditure to which you refer as a result of increased costs of telephone conference calls, electronic mail, word processing equipment, as well as other contracts. These objects also reflect the impact of inflation.

CSRS HEADQUARTERS FUNDING

Question: What funding level would be necessary to maintain current level of staffing for CSRS headquarters operations?

Answer: The total current fiscal year 1982 funding level appropriated for CSRS for Federal administration is $7.5 million. $1.4 million of this is in the direct Federal administration account. Annualization of pay cost increases effective in fiscal year 1982, based on the fiscal year 1982 staffing level, and estimated inflationary costs of 6.5% on non-salary items would result in an estimate of $7.8 million to maintain the fiscal year

1982 level in fiscal year 1983. The $7.6 million for Federal administration proposed in the budget for fiscal year 1983 is considered to be fully adequate to support the reduced staff and refocusing of CSRS functions to provide more national leadership and less program oversight with respect to formula funded programs.

Question: Even though the increase for Hatch formula funding will provide no real program increase, the administrative costs of the program increase as well due to the straight 3 percent formula. Are there increased administrative burdens associated with the higher level of funding and, if so, what are they?

Answer: This Hatch Act increase of 2.4 percent is for increased operating costs in the State agricultural experiment stations to help offset the impact of inflation. While there are minimal increased administrative burdens associated with the higher level of program funding, it must be recognized that the administrative costs experience an inflationary impact comparable to that of the program.

Question: What would be the impact of appropriating separately for all administrative costs rather than deducting them from each specific program account?

Answer: For the programs administered by Cooperative State Research Service, the authorizing legislation requires that 3% or 4%, as identified in the legislation, be set aside at the Federal level for administration. The direct Federal administration account was created to provide for Federal pay increases and other needs which the specific program set-asides have not been adequate to fund. The costs of Federal administration would be the same whether the funds were set aside under each authorization or appropriated separately. If all of the funds were appropriated in the direct Federal administration account, they would not necessarily be directly identified for support of the specific program.

NATIVE LATEX ACT

Question: What has been accomplished to date with the funds provided for activities under the Native Latex Act, and what will be accomplished with the $702,000 requested for FY 83?

Answer: Public Law 95-592, Native Latex Commercialization and Economic Development Act of 1978, authorizes a program of research, development, and demonstration of guayule rubber production and manufacture as an economic development opportunity for the Southwestern States. The United States imports its requirements of natural rubber as there is no domestic commercially available source. Natural rubber is a high priority strategic material. Guayule, a desert shrub from the extreme Southwestern States presently appears to be the best prospect to make this nation largely self sufficient in natural rubber.

Native Latex grants for a total of $630,500 were first awarded under a competitive system in FY 1980 to institutions in the states of Arizona, California, New Mexico, and Texas, emphasizing breeding and selection, and agronomic practices. The recipient institution, title of project, and the amount of each grant are as follows:

University of Arizona	
Water use and production practices for guayule	$71,800
Guayule improvement, utilizing the Arizona germplasm collection	67,300
Seed production practices for guayule commercialization	73,900
Identification and control of guayule diseases	70,600
Texas A&M University	
Establishment and cultivation practices for guayule production	75,000
Developing salinity, irrigation, and fertility management of guayule grown with gypseous saline water	51,900
Los Angeles State and County Arboretum	
Breeding for increased rubber yield in guayule	75,000
California Department of Food and Agriculture	
Optimize rubber production in guayule by breeding and selection	75,000
New Mexico State University	
Influence of establishment methods and herbicides on guayule rubber production	70,000
	630,500
Federal Administration, 3%	19,500
TOTAL	650,000

These institutions received the same amount in FY 1981. A total of $702,000 will be awarded in FY 1982, pending a satisfactory progress report and an overall evaluation. The $702,000 proposed for FY 1983 will continue the research at these institutions since the nature of the research is long-range.

Significant progress has been made in acquiring new germplasm sources, both in the United States and in Mexico, along with cooperative efforts with Mexican scientists. Existing materials are being evaluated for rubber production. Germplasm from crosses within guayule and between guayule and its close relatives have given strains that are higher in rubber than those from wild stands. Progress also is being made in water use and irrigation practices, seed production, agronomic practices, pest resistance, and weed control. It is anticipated that even better strains will be developed, and refinements in techniques will be made through the FY 1983 grants.

EXTENSION SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

RENEWABLE RESOURCES

Question: The Senate put in funding for RREA in FY 1982. It was the first time funding had been provided for RREA. It is proposed for deletion in the FY 1983 Budget and part of a rescission proposal for FY 1982. How far along are the plans for this program? Please furnish details.

Answer: In early 1980, a 5 year plan, as required by section 5 of the Renewable Resources Extension Act of 1978, was submitted to the Congress. This plan was developed after extensive consultations with the Extension Committee on Organization and Policy -ECOP- and from inputs from each State. The plan was also developed based on full authorization of $15 million. The plan provides national emphasis and direction as well as guidance to the States in the development of each State's renewable resources extension programs and according to inherent conditions, needs, and opportunities. In terms of plans for using the $2 million appropriated in FY 1982, we have also consulted ECOP and the Department regarding the most appropriate method of using these monies.

POST HARVEST TECHNOLOGY

Question: Recent reports have indicated that productivity growth could be achieved by reducing postharvest losses. There are immense costs added to food and fiber commodities after the so-called "farmgate." What, if anything, is being done to improve efficiency in the production-consumption chain?

Answer: Loss reduction is necessary to conserve valuable resources and to improve the efficiency of both the production and marketing systems. Research is underway to determine where the losses occur, the causes of the losses, the magnitude of the losses, and to find ways to eliminate or reduce them. Loss aspects under study include: microbial contamination and spoilage, physiological causes, physical losses, and insect damage.

Question: Have the proper roles for Federal, State and private sector research in postharvest technology been established? What are they?

Answer: The major share of U.S. agricultural research is conducted by USDA, the State land grant universities and private industry. Recent Post Harvest Technology Research Assessments, culminating in a Report to the Office of Management and Budget, Science and Education Administration, Agricultural Research and Cooperative Research, showed a strong research program to be essential to the continued proper and efficient functioning of the food and fiber marketing system and for the technological developments on which its future rests. Areas of research were identified which were the responsibility of public-supported institutions; other areas were identified which were considered to be the joint responsibility of the State institutions, the Federal government and industry through a coordinated effort; and research such as product and market development characterized by proprietary inputs and fueled by the profit motive were identified as the sole responsibility of industry. Since public funds for research are limited, extreme care is taken to avoid unnecessary duplication of work underway elsewhere. In instances where joint effort is indicated, the work is carefully planned and coordinated. Cooperation among the parties has resulted in significant advances in agricultural productivity.

The role of Federal research is to address the problems of national concern, research in support of federal action agencies, international in scope, high risk and long range in nature, pertinent to national goals and objectives, responds to emergency situations, and/or is essential but is not being covered by industry or the states.

The PHT Research Assessments analyzed post harvest technology research by the seven socio-economic goals of energy, environment, productivity, loss reduction, health and safety, product quality and balance of payments. State research was found to contribute significantly to each of the seven socio-economic goals, with productivity, product quality and health and safety problems receiving the greatest support. Of the funds and manpower for State PHT research, 32 percent were assigned to basic research, an amount considered to be within the range of a well-balanced program. There many problems for which there is an inadequate base of information and for which the risks are too high and the applications too general for industry to be expected to solve. There also is inadequate knowledge on the biological, chemical and physical factors involved in the application of technology to the protection of the environment — water, air, soil — which are of public interest and for which industry cannot be expected to capture sufficent benefits to pay for the research. State research in PHT contributes to the solution of these problems whether they relate to the consumer — public — interests or to local, regional or national needs; as well as undertakes research generally appropriate to the public sector role, research for which they have the special expertise, and research which others are not doing. Many State industries are too small to conduct research or to engage in basic research designed to protect the public interests in matters of safety, quality, supply and costs of agricultural materials. These groups look to State researchers for help. Therefore, States also have a responsibility to conduct such PHT research as may be helpful to small, local, regional or national industries or organizations which serve society and provide employment.

The private sector is mainly concerned with problems of a proprietary nature such as those related to specific market outlets conditions and localities.

STATE EXTENSION WORKERS

Question: Through State extension workers and agents, knowledge of new technology is transferred from scientists to users or many topics, most often by personal contacts. With the advancement of knowledge in agriculture and nutrition growing so rapidly for the past two or three decades, how can these agents and workers keep up with the advanced technology or do they?

Answer: The federal-state partnership and the land-grant university system combine to provide unique and complimentary sources, dimensions and perspectives in new knowledge and technological advances.

The federal partner keeps state counterparts - whether in administrative, program leadership or specialist roles - apprised of national USDA and Extension Service goals and priorities, and informed about the status of cooperative relationships with other agencies, organizations and commodity groups. The Extension Service staff also conveys to states the results of federally supported pilot programs and studies conducted throughout the country and in U.S. territories. This facilitates coordination in program design and methodology, and, often, shared use of available resources.

Because state Extension staff work in close collaboration with research colleagues, many participate directly in generating scientific "cutting edge" break-throughs -- the result of searching for solutions to the real and persistent problems of clientele. Besides broad involvement with the university community across many relevant disciplines, state Extension staff maintain intensive working relationships with relevant state agencies, providing additional input bases for feeding new knowledge and technology into the Extension system.

Results-oriented information gleaned from these and other sources is shared on down the line with county agents and other Extension workers through direct contact, technical bulletins, newsletters, other media outlets and, where appropriate, workshops or other professional staff training planned to meet specific state needs.

EXTENSION STRUCTURE

Question: Please explain the structure of State Cooperative Extension Services.

Answer: There is not a standard structure common to all the State Extension Services. The memorandum of agreement between the U. S. Department of Agriculture and each Land-Grant college or university requires the college/university to maintain a separate administrative unit to carry out an extension program. Subject to this requirement each State may structure its Extension Service as its University administration sees fit.

Each State Extension Service is headed by a director who is selected by University administration subject to approval by the Secretary of Agriculture. The director may be responsible only for the operation of Cooperative Extension or may have other administrative responsibilities as well. All States maintain staffs of specialists at the State level who both conduct activities in support of county programs as well as conduct training activities for county staffs. Sometimes the specialist staff is housed separately, but most often they are located in university departments with their research and teaching counterparts. Most extension specialists--about 60%--hold full-time Extension appointments but the remaining 40% hold joint appointments--research-extension, teaching-extension, or a combination of all three responsibilities.

Question: Is this structure changing and how is it changing to deal with educational programs and information delivery systems?

Answer: The way the State Extension administration and staff is structured is frequently changed but there is no discernible trend in the direction of change. Change is frequently associated with change in university administrations and has little, if any, relation to new educational programs or information delivery systems. The county office remains the basic unit of Extension program delivery. County staff, moreover, regularly receive training on new program materials and methodologies as well as in the use of new information delivery systems.

PESTICIDE IMPACT ASSESSMENT

Question: What impact will the Administration's proposed decrease for pesticide assessment have on the current program?

Answer: Basic programs will be maintained to meet requirements of the Federal Insecticide, Fungicide, Rodenticide Act and will be directed toward providing benefit and risk information for those pesticides already undergoing review, or involved in litigation in the Environmental Protection Agency -EPA- Rebuttable Presumption Against Registration -RPAR- process. Thus, Cooperative Extension Service will have to rely more on information already available in lieu of obtaining additional information from surveys and other sources.

COMPUTER USE

Question: To what extent does the Extension Service (ES) utilize computers?

Answer: Despite the relatively slow adoption of computer technology in Extension, many projects have been accomplished in the past few years and many more are currently underway.

Extension Service, USDA uses the computer for two types of operations: program management and program delivery. On the program management side, Extension uses the computer for the Expanded Food and Nutrition Education Program -EFNEP- to monitor the program, select the sample for data reporting, and store and retrieve program effectiveness data. The EFNEP evaluation project uses the Washington Computer Center -WCC- to store and retrieve evaluation data and to perform impact analyses using several of the analytical software packages available at WCC. Other evaluation projects have been completed using the computer to correlate variables and provide immediate retrieval of evaluation data.

For program delivery, or information communication, several ongoing projects provide information to the Extension Service program units as well as to the State Extension Service. As examples, the Narrative Accomplishment Reporting System -NARS- keeps the annual reports of the State Extension Services in a data base. Information can be retrieved from NARS by keywords which describe program areas, commodity areas, and states served.

The electronic mail system is rapidly gaining use and acceptance in the Extension Service, USDA, and in the State Extension Services. A growing number of Extension staff is finding that electronic mail is valuable for its speed over regular mail delivery and telecopying. The electronic mail network is also being used to convey agricultural news from news copy.

The Computerized Outlook Information Network -COIN- operated through the Virginia Extension Service, provides releases from the Crop Reporting Board, the World Agricultural Outlook Board, and the Foreign Agricultural Service. The Extension Service, USDA, has the capability of transferring information in COIN from the national mainframe computer to the host computer at a state location for access by county office users.

The interest of farmers in use of computer technology is rapidly accelerating. The State Extension Services in 1981 held numerous workshops for farmers and prepared many pieces of educational material with particular focus on the on-farm computer. For example, one of the largest and most widely attended such workshops was conducted by the Indiana Extension Service. Over 1,000 people from 40 States attended. Forty companies conducted exhibits of computer services which they provide to farmers. In some States, such as Missouri and Minnesota, the Extension Service is in the process of helping to form organized groups of farmers who own computers. These groups are active in exchanging information and computer software. The State Extension Services are also developing software for farmers' use. Extension assistance provided to farmers in the areas of 1- analyzing and preparing cash-flow projections and farm plans; 2- marketing decisions; 3- risk management; and 4 - providing increased information and training to personnel of farm lender organizations -- especially FmHA -- has materially contributed to more success in agricultural production.

ALLOCATION FOR COMPUTERS

Question: How much is allocated to support projects in this area?

Answer: In FY 82 and FY 83 $536,000 has been identified for ADP equipment and telecommunications expenditures.

Question: Do you collaborate in any way with the private sector on computer use?

Answer: There is a fairly heavy concentration of private sector involvement in the computer area. Contracts have been awarded and advice has been sought by Extension Service in the realms of electronic technology, computer hardware, procurement, computer software development, and data base building.

For the EFNEP reporting, private concerns are preparing non-statistical summary reports of data from the 50 states and Puerto Rico. Other private concerns also provide support for building and analyzing the EFNEP evaluation data.

The hardware and software support for the Narrative Accomplishment Reporting System -NARS-is provided by a private concern, as it is for the electronic mail technology.

As an example of data base development, Extension Service has contracted with the private sector to perform a statistical attribute match of the Nationwide Food Consumption Survey and the Survey of Income and Education to project household food expenditure and nutrition consumption levels.

The Green Thumb Box Project, a pilot effort in two counties in Kentucky, involved collaboration with the private sector in the most efficient use of the telephone line, the television as display port, and the electronic hookup. Future private sector involvement is a definite outcome of this pilot project.

NON-POINT SOURCE POLLUTION

Question: It has been often said that Smith-Lever 3d provides "seed money" to get States started on important programs. With the non-point source pollution program in Smith-Lever 3d for only FY 1982 and terminated in FY 1983, did this program provide the impetus to get the States working on this problem?

Answer: About one-third of the States have been conducting Extension education programs designed to reduce the impacts of non-point source pollution without the benefit of this earmarked funding. It is not yet known if the FY 1982 funding will increase the number of States with programs. The earmarked program was proposed for termination because of overall budget constraints.

Individual State Cooperative Extension Services at their discretion can conduct these programs from other funds available to them. In addition, State and County health departments are expected to continue to devise and implement regulations to assure proper construction and maintenance of individual waste disposal systems, assuring that inadequately treated effluent does not find its way into our waters. State water quality agencies, working in cooperation with the Environmental Protection Agency, also have the capability of devising and implementing the necessary regulations to abate non-point pollution and the staffs to provide enforcement.

1890 COLLEGES

Question: The $5.3 million increase for the 1890 Colleges was mandated by the Farm Bill of 1981. How will the additional funds be used by the schools?

Answer: This increase will help finance the additional resources needed at these institutions for management and to help offset inflation. These institutions serve primarily limited-income clientele within their States and the additional funding will also help in increasing participation in Extension education programs.

Question: Please provide details on what the schools are providing now, in the way of extension programs. What are some examples of recent accomplishments at these institutions?

Answer: Currently, approximately 682 personnel are employed in the 1890 extension programs including 130 state and area specialists; 95 county extension workers: 349 paraprofessional aides and 108 clerical and support staff.

The institutions serve primarily economically and socially disadvantaged clientele in 430 counties in 16 predominantly southern states. The disadvantaged groups incude both black and white clientele.

The FY 1981, the estimated economic impact of 1890 programs on its clientele was around $90 million. This sum represents actual savings plus increased income resulting from participation in 1890 programs incuding such examples as garment making, home garden production, energy conservation measures, as well as increased farm and other family income resulting from particpation in extension educational programs.

The 1890 extension programs are financed primarily from the Federal extension appropriation which amounted to $12.2 million in FY 1982. Only a few states receive any State or local support. This support makes up a relatively insignificant portion of total dollars allocated to 1890 extension work.

FEDERAL ADMINISTRATION

Question: Explain the reasoning behind the $1.7 million decrease in Federal Administration?

Answer: The reduction was proposed to respond to the Administration's goal to reduce employment in all areas where Federal employees are not absolutely essential. We believe there are areas where Federal Extension activities have not had a major impact in providing national leadership and coordination to the system.

Question: What will be its impact on the CES?

Answer: The impact of these reductions on the Cooperative Extension System will vary by State. The larger and more financially able States would be less impacted. There are a number of reviews being conducted on the total Extension System which will greatly influence the future roles and functions of the Federal Extension Service, and its relationships with its cooperators. We do expect some changes in our Federal partnership role with a reduction of this size in our budget.

Question: How will the Extension Service handle the reduction of 55 people in one year?

Answer: Some immediate actions being contemplated at this time include the freezing of unfilled vacated positions; contracting with the private sector for service-related functions such as publications distribution and others; entering into cooperative working agreements with universities and other institutions of excellence in certain fields such as program evaluation, aquaculture and others. Analysis is currently being made within the headquarters staff to reduce efforts where possible and to eliminate unnecessary and duplicative activities.

Question: Will there be RIF's?

Answer: It is hoped that the proposed personnel ceiling level can be reached without resorting to RIF's. We are presently conducting an in-depth review of our Federal responsibilities and it is not yet known if a reduction-in-force procedure will need to be implemented in order to reach the lower staffing levels until we conclude our analysis, but it is probable that RIF's will be necessary to bring about a cut in personnel of this magnitude.

Question: Do you expect these cuts for Federal Extension funding and staffing to involve just FY 1983 or are they part of a multi-year reduction?

Answer: The Administration has made no decision concerning further cuts in staffing in FY 1984 or future years.

Question: If it is a multi-year reduction plan, what will be the size and function of the Federal Extension Service at its completion?

Answer: The total Extension system is undergoing two very important reviews of its operations. One is the House oversight hearings to determine the proper roles of both the State operation and the Federal staff before the House Agriculture Subcommittee on Department Operations, Research, and Foreign Agriculture chaired by Congressman George Brown. The other is a study entitled Extension in the 1980's, commissioned by Secretary Block and the Land-Grant Association. These efforts will be instrumental in determining the future size, function and role of the Federal Extension Service.

EFNEP

Question: What is the effect of level funding on the EFNEP program?

Answer: Funds will not provide for real growth in the program nor will they cover inflationary costs. Since 1971 the employment of paraprofessional aides which numbered 7,531 at that time is now less than half and is approximately 3,179. This reduces the number of familes who can be taught in EFNEP. The Department is investigating new educational techniques which will increase the number of families reached within current funding constraints.

Question: How many aides are currently in the program?

Answer: The program is presently operating at 1,012 program sites with 3,179 paraprofessionals and 583 professionals employed.

Question: What are the current enrollment figures?

Answer: The FY 81 annual data shows that 252,130 program families and 575,119 youth were enrolled in the program.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

SPECIAL PROGRAM EFFORTS

Question: In your statement you call for a decrease of $7,359,000 in your special program efforts. You justify the cut by saying that these programs are already being conducted and supported in some manner with formula and State and local funds. Has there been an increase in the amount of money State and local governments have contributed to these programs?

Answer: State and local governments are not required by law to match Federal Appropriations for special programming efforts, although these units of government have been providing funding support for these extension activities because of their importance. The level of State and county support for the total cooperative extension system increased by 10.7% in FY 1982 and a proportionate share of that increase would be in support of these special programs. However, this level varies widely by State depending on individual State priorities and financial capabilities.

Question: Do you have any indication that the States will pick up the $3 million cut in urban gardening and the $1.02 million cut in farm safety?

Answer: The urban gardening program, as it is now known, would be terminated. However the master gardener and other volunteer-type programs could aid in maintaining some Extension presence in those cities. Also, some redirection of resources from other programs would occur and would be decided by the States individually according to their goals and priorities.

The farm safety program would probably continue in the nine States which had full time farm safety professional staff prior to 1975 when earmarked funds were first appropriated. We would also expect 14 additional States to continue at a near full time level and almost all other States would maintain some degree of effort in farm safety programs.

Question: In light of the fact that you have requested no increase in Smith-Lever formula funds, won't the States have to make up for inflation--in effect they will be receiving a cut.

Answer: The States would have to absorb the effects of inflation within the proposed budget in FY 1983 because of level funding.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

FEDERAL ADMINISTRATION

Question: Please provide a description of current activities funded with Federal Administrative funds and what activities could not be continued under the proposed budget?

Answer: Currently our activities in Federal Administration are varied. Some of our current functions include: policy development and implementation, national program guidance, monitoring Federally funded Extension programs; and program direction through accountability and evaluation. We are not in a position to identify which of our current functions would be continued, reduced, or terminated at this particular time. We are in the process of determining this but we can provide the Committee with a specific listing following conclusion of our study. As I have mentioned in answer to a similar question from Senator Cochran, the Extension system is undergoing two very important reviews of its missions. One is the oversight hearings to determine the proper roles of both the State operation and Federal staff before the House Agriculture Subcommittee on Department Operations, Research, and Foreign Agriculture chaired by Congressman George Brown. The other is a study entitled" Extension in the 1980's" commissioned by Secretary Block and the Land-Grant Association. These efforts will also be instrumental in determining which functions will be terminated or reduced in scope.

NATIONAL AGRICULTURAL LIBRARY

QUESTIONS SUBMITTED BY SENATOR COCHRAN

IRM SYSTEMS

Question: What are the objectives of the Integrated Reproduction Management System?

Answer: The objective is to develop an information gathering, storage, and communication system for this emerging national initiative. This system will allow for the continuing collection and dissemination of present knowledge, future research findings, and operational experience by all participants. Initially we propose to inventory all fields of interest upon which the IRM program might be based, such as management/husbandry, genetics, nutrition, disease-pest prevention, physiology-endocrinology, and environmental control. This inventory and subsequent identification of pertinent specific topics will lay the groundwork for eventual creation of an IRM data base and tracking system. The tracking mechanism as developed by NAL will enable USDA to effectively coordinate IRM projects, avoiding duplication and waste.

COST OF COMPUTER SYSTEMS

Question: Please provide a table that displays your computer systems cost in 1981, 1982, and 1983.

[The Information Follows]:

	1981	1982	1983
Answer: Online computer retrieval from AGRICOLA and other databases	108,000	82,000	86,000
Automated circulation and inventory control (DataPhase)	79,000	98,000	108,000
AGRICOLA database production	180,000	180,000	180,000
Serials listing system	60,000	70,000	70.000
Shared cataloging through OCLC and NAL processing of cataloging records	120,000	130,000	120,000
*Current Awareness Literature Service	490,000	370,000	320,000
FAMULUS (individual bibliographic files for researchers	60,000	60,000	60,000
	1,097,000	990,000	944,000

The figures above do not include personnel and database royalties.

	1981	1982	1983
CALS database lease and royalty costs	200,000	220,000	240,000
Personnel	400,000	420,000	430,000

*The higher costs for CALS in FY81 resulted from the fact that we were catching up on processing some database tapes that were delayed in production the previous two years.

LOCATION OF LIBRARIES AND CENTERS

Question: Where are your 18 officially designated field libraries and 30 information centers?

[The Information Follows]

Forest Service: Forest Products Laboratory, Madison, WI 53706
Intermountain Forest & Range Experiment Station, Ogden, UT 84401
North Central Forest Experiment Station, St. Paul, MN 55108
Pacific Southwest Forest & Range Experiment Station, Berkeley, CA 94701
Rocky Mountain Forest & Range Experiment Station, Ft. Collins, CO 80521
Southern Forest Experiment Station, New Orleans, LA 70113
Northeastern Forest Experiment Station, Broomall, PA 19008

Agricultural Research Service:
Eastern Regional Research Center. Philadelphia,PA 19118
Northern Regional Research Center, Peoria, IL 61604
Richard Russell Research Center, Athens, GA 30604
Southern Regional Research Center, New Orleans, LA 70179
Western Regional Research Center, Berkeley, CA 94710
National Animal Disease Center, Ames, IA 50010
Plum Island Animal Disease Center, Greenport, L.I., NY 11944
National Tillage Machinery Laboratory, Auburn, AL 36830
Sedimentation Laboratory, Oxford, MS 38655
Office of General Counsel, Law Library, South Building, Washington, DC 20250
Human Nutrition Information Service, Food and Nutrition Information Center National Agricultural Library, Beltsville, MD 20705

The small, unofficial libraries or technical information centers with which we maintain working contact number 35 at this time. They are:

Forest Service:
Bridger-Teton National Forest, Kemmerer, WY 83101
Clearwater National Forest, Orofino, ID 83544
Engineering Staff, Technical Information Center Washington, DC 20013
Equipment Development Center, Missoula, MT 59801
Equipment Development Center, San Dimas, CA 91773
Forest Hydrology Laboratory Oxford, MS 38655
Forest Products Marketing Laboratory, Princeton, WV 24740
Forest Science Laboratory, Juneau, AK 99802
Institute of Tropical Forestry, Rio Piedras, PR 00928
Rouge River National Forest, Medford, OR 97501
Technical Information Center, Washington, DC 20250

WESTFORNET-Seattle, Forest Resources Library University of Washington, Seattle, WA 98195
SOUTHFORNET, Science Library. University of Georgia, Athens, GA 30602

Agricultural Research Service:
Bee Reseach Laboratory, Tucson, AZ 85719
Biological Control of Insects Laboratory, Columbia, MO 65205
Citrus & Subtropical Products Laboratory, Winter Haven, FL 33880
Horticultural Research Laboratory, Orlando, FL 32803
Meat Animal Research Center, Clay, NE 68933
National Arboretum, Washington, DC 20002
Northwest Watershed Research Center, Boise, ID 83705
Animal Science Institute, Beltsville, MD 20705
Nutrition Institute, Beltsville, MD 20705
Snake River Conservation Research Center, Kimberly, ID 83341

Southwest Watershed Research Center, Tucson, AZ 85705
Stored-Products Insects Reserch and Development Laboratory, Savannah, GA 31403
Water Conservation Laboratory, Phoenix, AZ 85040
Western Cotton Research Laboratory, Phoenix, AZ 85040

Other USDA Agencies:
- Animal and Plant Health Inspection Service:
  - Plant Protection and Quarantine Training Center, Battle Creek, MI 49016
  - Plant Protection and Quarantine, Federal Center Building, Hyattsville, MD 20782
- Food Safety and Quality Service:
  - Science Administration, USDA Annex Building, S.W., Wshington, DC 20250
  - Food Quality Assurance Division, USDA South Building, Washington, DC 20250
- Economic Research Service, American Agricultural Economics and Document Center Library, GHI Building, Washington, DC 20250
- National Finance Center, New Orleans, LA 70160
- Office of International Cooperation and Development, USDA South Buiding, Washington, DC 20250

NAL BUILDING

Question: Why does the NAL require authority to obligate up to $375,000 for the alteration and repair of buildings and improvements? Are there sufficient funds within the current NAL budget to defray that kind of expenditure? How have you been able to fund the maintenance of the NAL building in recent years?

Answer: In anticipation of needed repairs the library requested increased obligational authority in fiscal year 1982. The Nal building is 12 years old. Since it is a fairly new facility it has not required major repairs through the early years. About two years ago, extensive exterior restoration work including building retrofitting was made. This was financed from the original building contract. Other small maintenance repairs have also been made from the restructuring of the terrace at the front entrance.

However larger and more expensive repairs and maintenace needs are before us. These include needed replacement of the roof currently estimated at $275,000; construction of retaining walls estimated to cost $300,000 and a floor covering on the main public floors. These rather large and highly needed maintenance cost are not requested nor are currently included in the NAL budget. We do project obligations at these levels in future years.

CLOSING REMARKS

Senator **Cochran**. We had scheduled a hearing of this subcommittee tomorrow to look at the funding proposals of the Food and Drug Administration, but because of the planned activities on the Senate floor, it does not appear that we will be able to have that hearing. I wanted to announce at this time that we will postpone that hearing. There is a hearing scheduled by this subcommittee for Thursday, March 11, at 9:30 a.m., in this room. We will be looking at the proposed budgets of the Economic Research Service, the Statistical Research Service, World Agricultural Outlook Board, and some other smaller agencies of the Department.

SUBCOMMITTEE RECESS

At this time the hearing will stand in recess.

[Whereupon, at 11:30 a.m., Tuesday, March 9, the subcommittee was recessed, to reconvene at the to call of the Chair.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

THURSDAY, MARCH 11, 1982

U. S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:32 a.m., in room 1318, Everett McKinley Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senator Cochran.

DEPARTMENT OF AGRICULTURE

STATEMENTS OF:

- WILLIAM G. LESHER, ASSISTANT SECRETARY FOR ECONOMICS
- J. DAWSON AHALT, DEPUTY ASSISTANT SECRETARY FOR ECONOMICS;
- JOHN E. LEE, JR., ACTING ADMINISTRATOR, ECONOMIC RESEARCH SERVICE
- WILLIAM E. KIBLER, ACTING ADMINISTRATOR, STATISTICAL REPORTING SERVICE
- TERRY N. BARR, ACTING CHAIRMAN, WORLD AGRICULTURAL OUTLOOK BOARD

ACCOMPANIED BY:

- ROBERT A. DiGREGORIO, DIRECTOR, BUDGET AND FINANCE DIVISION, ECONOMICS MANAGEMENT STAFF
- ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

INTRODUCTORY REMARKS

Senator COCHRAN. The subcommittee will come to order.

We will begin our second in a series of hearings looking into the USDA and related agencies requests for fiscal year 1983.

This morning's hearings will focus on several agencies and offices within the Department of Agriculture. Our first panel consists of spokesmen for the Economic Research Service, the Statistical Reporting Service and the World Agricultural Outlook Board.

BASIC MISSIONS OF ERS, SRS, AND WAOB

The Economic Research Service and the Statistical Reporting Service are two new agencies created from the former Economics and Statistics Service. The Economic Research Service provides timely and reliable agricultural economic information that is needed by farmers, Extension personnel, and others in the chain of production and marketing, as well as by Congress and other Government agencies. The Statistical Reporting Service has as its primary mission the development, coordination, and dissemination of national and State agricultural statistics and statistical research data, such as crop and livestock estimates.

The World Agricultural Outlook Board serves as the Department's clearinghouse and coordinator of all agriculture and food-related data used to develop outlook and situation material. It serves as the Nation's intelligence gatherer with regard to domestic and international food and agriculture.

We want to welcome this morning to the subcommittee Dr. William Lesher, Assistant Secretary for Economics; Mr. J. Dawson Ahalt, Deputy Assistant Secretary for Economics; Dr. John Lee, Acting Administrator of the Economic Research Service; Mr. William Kibler, Acting Administrator of the Statistical Reporting Service; Dr. Terry Barr, Acting Chairman of the World Agricultural Outlook Board; and Mr. Bob Sherman, Deputy Budget Officer of the Department of Agriculture.

PREPARED STATEMENTS AND BIOGRAPHICAL SKETCHES

Gentlemen, we have copies of your statements, which we appreciate your submitting to the subcommittee along with your biographies, and we will make those a part of the record at this point.

[The statements and biographical sketches follow:]

ECONOMIC RESEARCH SERVICE

PREPARED STATEMENT OF JOHN E. LEE., JR.
ACTING ADMINISTRATOR

Mr. Chairman and members of the Committee, I am happy to have my first opportunity to discuss with you the programs of the Economic Research Service.

Background on Organizational Changes

The Economic Research Service (ERS) was reestablished on September 30, 1981, by separating the functions previously performed by the Economics and Statistics Service into two new program agencies--the Economic Research Service and the Statistical Reporting Service. Management support services for the two agencies and the World Agricultural Outlook Board are carried out by a new staff unit, the Economics Management Staff.

Functions of the Economic Research Service

The principal function of ERS is to serve the essential need for timely and reliable economic information concerning agriculture and food. ERS is one of the few major sources of objective economic information about agriculture, the food and fiber industry, natural resources, and rural development. Farmers, research and extension workers, private analysts, processors, marketers, input suppliers, consumers, and policy officials in Federal, State and local governments rely on the products of ERS--agricultural economic research, forecasts of major agricultural economic indicators, policy analysis, and data--to make their decisions. Many of the activities of ERS are carried out in cooperation with other publicly-funded research institutions--primarily other Federal agencies and State universities. Principal USDA recipients of reimbursable work are the Soil Conservation Service, Farmers Home Administration, Agricultural Stabilization and Conservation Service, Agricultural Marketing Service, Food and Nutrition Service, Forest Service, Foreign Agricultural Service, and the Animal and Plant Health Inspection Service.

We are now organized into four Divisions which deal with:

1. Foreign demand for U.S. exports. The growth in foreign demand for U.S. products and the increasing importance of foreign markets have increased the need for economic research on exports and trade. ERS has placed increased emphasis on international economic research and analysis, and has become a major source of information on world agricultural production, consumption, trade, and the resulting impacts on U.S. agriculture. ERS monitors international agricultural developments and conducts analyses of their effects on trade and, in turn, on the U.S. farm and food sectors. World production indices by country and region are constructed and U.S. agricultural trade data are maintained. Economic analysis is also conducted in support of policy and program issues of international scope such as food aid allocations, and export credit.

2. The U.S. food and fiber sector. Research on the composition and performance of agricultural commodity production and marketing activities, outlook for commodities, farm income and food prices, and analysis of public policies and regulations contribute to an understanding of the economic condition of farmers. The research also provides a vision of where changes will occur, and anticipation of the attendant issues and the analytic and data needs required to address them. The food and agricultural system's productivity, effectiveness, resilience to shocks, flexibility to accommodate changing needs, viability, and competitiveness, are measured, monitored, and analyzed.

3. Land and water resources. This research emphasizes (a) identifying and quantifying the principal factors that affect the supply, quality and use of land and water resources, (b) estimating land and water supply potentials and constraints, and (c) assessing the effects of alternative policies and programs on the use and conservation of land and water. Other investigations

assess the impact on land use of alternative soil erosion controls, water development programs, and forms of ownership. These evaluations have become increasingly important given the Secretary's commitment to establish a comprehensive soil and water conservation policy.

4. Rural America. ERS conducts research on economic and social conditions that affect not only people living on farms, but also in other rural areas and towns. Today, 9 out of 10 rural residents are nonfarm people. While the rural population turnaround of recent years has changed rural areas, it is still true that a disproportionate share of rural people are poor, and that rural people generally have inadequate access to public and private facilities and services. Current research is aimed at understanding economic problems in rural areas, determining the causes of these problems that are of public concern, and evaluating alternative policies for dealing with those problems.

Management Improvements

The program of ERS reflects the Agency's responsiveness to the ever-changing needs of our clientele. The phasing out of old projects and activities and redirection of dollars and people to new needs is a continuing process. We are experiencing a rapid increase in demand for economic research and information on all aspects of the food system and rural America. At the same time, we strongly support the President's initiatives to reduce growth in Federal expenditures. To meet both these needs, we are emphasizing more than ever the skillful management of existing resources and are focusing on the truly critical priorities rather than requesting additional funding for major new initiatives. We believe that this will result in a more effective Agency by making more efficient use of all our resources while being more responsive to client needs.

We are taking a number of steps to improve our efficiency and effectiveness. These include, as examples:

- Rigorous program reviews, redirecting resources wherever possible to meet emerging issues of national scope, and phasing out those programs of lower priority.

- Computerizing processes that used to require large numbers of clerical and statistical support personnel, thus increasing the proportion of staff who are researchers and analysts.

- Meeting regularly with university research leaders from the various States and regions to assure elimination of unnecessary duplication and an appropriate division of labor between ERS and universities.

- Exploring of new means of information dissemination, including newly emerging electronic technologies, to get information to more users, on a more timely basis, and at lower costs than traditional publication processes.

To assure that we are responsive to the needs of our users, we continue to seek the advice and recommendations of the other Federal agencies we serve, State and local agencies and officials, the private sector, and other research and statistical organizations. We do this in meetings, conferences, and organized feedback processes. For example, in June 1981, we held a two-day public hearing, presided over by Assistant Secretary for Economics William Lesher, where some 250 persons presented oral and written testimony on their views of what ERS's priorities should be. We have made considerable use of this information in refocusing our programs.

These are difficult times for many farmers. In light of that reality and the President's initiative to reduce inflation and constrain the growth in Federal expenditures, we do not think it is appropriate for ERS to seek funding for new programs. For the same reasons, we are committed to assure that every employee and every dollar available to the Agency are making the maximum contribution to the service of American agriculture. To that end, the continued support and interest of this Committee and the personal interest and support of Dr. Lesher are greatly appreciated.

Changes Proposed for 1983

We are proposing a $40,584,000 budget for 1983 that would be a 3-percent increase from 1982 in the total, but which contains two increase items and two decrease items.

We are proposing an increase of $1,724,000 to fund the pay cost increases approved by Congress for 1982, including the 4.8 percent raise and the raise in the pay cap. Funding for these increases was absorbed in 1982.

We are proposing an increase of $1,640,000 for increased operating costs. This is an effort to maintain our programs as close as possible to the current level--to partially catch up with costs that are now higher. We are not building in anticipated future inflation in any way, except where we know there will be increased costs for 1983 (in our rent, for example).

We are proposing to drop the Farmers' Newsletter program--which would produce a budget saving of $940,000. The information in the Farmers' Newsletters can now be obtained by farmers from the media, farm magazines, other private sources, and the Cooperative Extension Service. These sources take the results of our research and outlook forecasting programs and interpret them in terms of their implications for farmers of particular commodities, in particular regions, and by nature of farm operation. In addition we are studying more timely and cost effective methods of disseminating information directly to farmers.

Finally, we are proposing a decrease of $1,200,000 to eliminate most free publications. A small free distribution would be limited to Congress, policy officials, libraries, the media, and other extenders of our information. Other users would be able to buy individual publications or subscribe to periodicals.

Before closing, Mr. Chairman, I would like to note with some pride, that 1982 is the 60th anniversary of the establishment of organized economic research and information in USDA. The impact of ERS and its predecessor agencies has been pervasive, in this country and around the world. Farmers, businessmen, policymakers, and the general public have come to take for granted the ready availability of a wide range of timely, accurate, and honest statistical and economic information which we provide. In fact, the level of available information about American agriculture is a matter of envy to other sectors of our economy and to other countries of the world, which incidently have adopted or are attempting to adopt the ERS model. We believe that American agriculture is more competitive, productive, and efficient because of the work we and our colleagues in the Land Grant Universities have done. Those accomplishments owe much to the support of the members of this and other Committees of the Congress who, over the years, have insisted that farmers have access to the economic information they need to make informed production and marketing decisions.

Mr. Chairman, that concludes my remarks. We would be pleased to respond to any questions the Committee may have.

STATISTICAL REPORTING SERVICE

PREPARED STATEMENT OF WILLIAM E. KIBLER
ACTING ADMINISTRATOR

Mr. Chairman, I am pleased to appear before this distinguished Committee to again represent the Statistical Reporting Service (SRS). It is a privilege for me to present our FY 1983 budget to this group that has recognized the need for a strong agricultural statistics program in the past three decades.

The Statistical Reporting Service is responsible for administering the USDA's program of collecting and publishing national and State agricultural statistics. Additionally, the Agency has responsibility for the coordination and improvement of the Department's statistical surveys. We also perform survey work for other Federal, State, and private agencies on a reimbursable basis.

The data developed on food and agriculture by SRS are essential to farmers, processors, and handlers in making production and marketing decisions and to legislators and administrators in developing and administering agricultural programs. These data are also basic for economic research and analysis, agricultural programs, and agricultural research.

Fiscal Year 1983 Budget Request

The fiscal year 1983 budget request is $53,694,000. This request includes $900,000 for the initiation of probability survey procedures for our grain stocks estimating program as part of our long-range plan to shift surveys to improved procedures utilizing probability based methods. Other budget increases include $2,014,000 to restore pay costs absorbed in FY 1982, $1,383,000 for increased operating costs, and $300,000 for purchase of LANDSAT data previously provided at minimal charge by other agencies involved in the AgRISTARS program. These increases are partially offset by decreases of $1,095,000 for eliminating and/or reducing the frequency of surveys conducted primarily for benefit of the general public, $232,000 for the elimination of the SRS support of Farmline magazine, and $1,212,000 realized by the shifting of the free distribution of releases to a subscription basis.

Please let me outline for you the major activities of the Statistical Reporting Service.

Each year we publish about 475 Federal and 9,000 State-Federal reports dealing with about 150 crops and 50 livestock items. Estimates of prices received and paid by farmers are also an important part of the program.

The production and marketing data produced by SRS includes: number of farms and acreage in farms; crop acreage, yields, production, stocks, value, and utilization; inventories and production of livestock, fish, poultry, eggs and dairy products; prices received by farmers for products, and prices paid for commodities and services for living and production, and related indexes; farm employment and wage rates; cold storage supplies; and other relevant aspects of the agricultural economy.

Our organization of 44 field offices serving the 50 States work through joint cooperative agreements with the local State Departments of Agriculture and/or universities to efficiently serve the agricultural data needs at both the State and Federal levels. These relationships are very important in providing for greater efficiencies in producing marketing and production data at all levels, and at the same time allowing the least burden on the providers of basic raw data. Thousands of farmers, ranchers, and agribusinesses voluntarily provide raw data in our surveys concerning crops, livestock, and other agriculturally related activities. These reports together with field observations, objective yield counts and measurements, and other data are consolidated to provide the basic information provided to the public on agricultural statistics.

A program of research is also conducted in an effort to improve the accuracy, reliability, and efficiency of our survey procedures. Remote sensing data are used in the development of new procedures and techniques for crop condition assessment and acreage estimation through the AgRISTARS program.

Review, coordination, and monitoring of statistical forms and surveys are done for the Department. This activity is undertaken to insure the suitability of methods planned and, working through OMB, to maintain a limit on the number of surveys conducted and the reporting burden on the public.

SRS also conducts surveys on a reimbursable basis for other Federal, State, and private agencies or associations. The organization existing for conducting our regular survey activities can provide this service much more efficiently and reliably than if each of the agencies were to attempt the survey on their own.

Plans for Fiscal Year 1983

Quarterly surveys of on-farm grain stocks are among the major surveys still not utilizing probability methods. SRS has a long-range plan to convert to probability methods the major surveys to meet the increasing need for accurate and reliable estimates. The increased funding of $900,000 requested for the initiation of probability grain and oilseed stocks surveys will improve the reliability and credibility of these data series.

The shifting of the maintenance of mailing lists, printing, and postage costs for Crop Reporting Board releases from a free service to a subscription basis will allow for a savings of $1,212,000 in appropriated funds. Reports will still be made available to the news service for immediate release, Department policy officials, Congress, and to those individuals and firms that are included in our sample surveys. All others would be required to pay a subscription for the cost of distribution of the report.

The increase of $300,000 for acquisition of LANDSAT data represents a shifting of the resource allocation from the agency (National Oceanic and Atmospheric Administration) providing the data to the agencies using the data. SRS has in the past been provided, at a reduced cost, the LANDSAT data used for research in the AgRISTARS program by the Earth Resources Observation Systems Data Center. With this new funding, we will now fully reimburse Earth Resources Observation Systems for the data that are required to conduct the research in this program.

Additionally, there is an increase of $2,014,000 covering the raising of the maximum salary level for capped employees and the cost of the 1981 Pay Act costs; also, $1,383,000 for increased operating costs will be used to maintain the basic core program of SRS. Increasing costs for postal rates, space, supplies, telephones, and ADP and related equipment continue to erode the resources available to do the basic work of the Service.

A decrease of $1,095,000 in obligations will be realized by the reduction in scope or frequency of a number of surveys that are primarily for the benefit of the public only. These estimates are important to the producers of the commodities involved, but are not necessary for the administration of Government programs.

This concludes my statement, Mr. Chairman, and I will be happy to respond to your questions.

WORLD AGRICULTURAL OUTLOOK BOARD

PREPARED STATEMENT OF TERRY N. BARR
ACTING CHAIRMAN

Mr. Chairman and Members of the Committee:

It is a pleasure to appear before you to discuss the fiscal year 1983 budget request of the World Agricultural Outlook Board.

Overview

The World Agricultural Outlook Board (WAOB) is an integral part of the U.S. Department of Agriculture's (USDA's) effort to make its commodity information system more responsive to the realities of today's world agricultural sectors. Agriculture has been buffeted by the instability in the economic, social, and political systems of many parts of the world. This increasing interdependency has placed strains on the USDA analytical and information systems. Interest rates, exchange rates, trade barriers, and other factors now play a crucial role in agricultural developments. It is increasingly important that we ensure that producers have as solid an information base from which to market their commodities as they have in improving their productivity.

The primary WAOB objective is to optimize the accuracy, objectivity and timeliness of USDA's economic intelligence on worldwide developments which influence the domestic agricultural system, and to speed the flow of that information to producers, consumers, policymakers and the general public.

The WAOB staff takes very seriously its role in directing the evolution of an integrated international information system which recognizes the realities of today's agriculture and anticipates futures needs. In the current environment, we wish to ensure that farmers acquire information as accurate and timely as that received by any other participant in the marketplace.

A major WAOB function is to coordinate and review for accuracy and consistency all USDA estimates and analyses relating to international and domestic commodity supply and demand conditions.

WAOB is the Department's focal point for weather and climate information and impact assessment, and these monitoring activities within USDA are coordinated by the WAOB Chairman. Remote sensing acivities in USDA are also coordinated by the WAOB Chairman. Space sensors and ground-based sensors which communicate through space relay systems have potential to improve the accuracy and timeliness of earth resources data and crop condition information now collected on the ground.

While the WAOB role is Department-wide, it does not alter the basic mission of the cooperating agencies. As WAOB continues its efforts to eliminate duplicative activities, the successful implementation of an integrated information system is a function of each agency's success in achieving its own mission. WAOB also continues to maintain liaison with international organizations, such as the United Nations Food and Agriculture Organization, and domestic agencies, such as the Commodity Futures Trading Commission.

Specific Functions and Progress

Events in global agriculture during the past several years underscore the need for continued assignment of a high priority to USDA's agricultural assessment outlook and information work. While we are hopeful that the years ahead will bring less turmoil than the past decade, developments here and abroad with impact on agriculture will remain uncertain and difficult to assess.

To deal with the uncertainties, WAOB has intensified efforts to integrate the Department's world agricultural intelligence system. WAOB continues to provide leadership for the interagency commodity estimates committees (ICEC) and has sought to expand the ICEC's analytical role in current condition and impact assessment. These committees include representatives of the Economic Research Service (ERS), Agricultural Stabilization and Conservation Service (ASCS), Foreign Agricultural Service (FAS), Agricultural Marketing Service (AMS), and WAOB. All committee members are USDA professionals with responsibility for developing official estimates of supply, utilization and prices for the major agricultural commodities. It is through the interagency membership of these committees that the various USDA agencies work together in a coordinated effort. Development and use of new analytical tools and evaluation of forecasting performance has become an ongoing responsibility of each committee.

Weather, as much as any economic or policy development, continues to be a significant and most unpredictable variable underlying agricultural production and prices. Consequently, USDA has placed a high priority on incorporating weather impact assessment in all analyses. The focal point is the Joint Agricultural Weather Facility (JAWF), operated jointly by the Board and the National Oceanic and Atmospheric Administration (NOAA). This facility, located in the South Agriculture Building, hourly monitors and assesses global weather events and their probable impact on agricultural output. JAWF analyses are a key ingredient in much ICEC work.

Key agricultural areas in every major producing country, including the United States, are identified by JAWF, and meteorological data from relevant weather stations around the world are analyzed daily relative to the stage of crop development. High speed computer systems are used to process, analyze and disseminate the information for public distribution, primarily through the Weekly Weather and Crop Bulletin. In the past year, JAWF published "Major World Crop Areas and Climatic Profiles." This significant reference document is part of a growing data base providing detailed analyses of weather events which affect global agricultural production.

In addition to regular briefings and reports, JAWF provides special alerts when critical weather events may affect U.S. or world agriculture. This early warning capability diminishes the likelihood that farmers and other participants in the agriculture system would be caught off guard by a crop failure or some other significant global event related to agriculture.

WAOB continues to stress the need for effective and efficient dissemination of sensitive market information to ensure that all participants in the agricultural chain have as equal access to the same material as possible. In fiscal year 1979, WAOB led an interagency effort that led to the development of a monthly World Crop Production report prepared under secured (lock-up) conditions. This was the first USDA publication to provide integrated forecasts of crop production in all major world growing regions. This report, initiated in July 1979, is prepared monthly in a manner similar to the Crop Reporting Board's U.S. Crop Production report. Each month, FAS and ERS commodity analysts and country specialists meet with Board economists and weather specialists to evaluate attache analyses, country reports, weather information and all other available intelligence to prepare major crop production estimates for the key countries of the world. This information, along with U.S. crop estimates, is then released to the public after the commodity markets have closed.

Secure conditions are maintained to prevent premature or illegal access to the data. By releasing the information immediately after the market closes, all users have ample time to acquire and assess the data. This process permits an intensive and objective review of all available economic, agricultural, and meteorological intelligence and ensures that everyone has access to this current market-sensitive information at the same time.

The second stage in the integrated system's evolution was the implementation in October 1980 of a procedure to develop and release the World Agricultural Supply and Demand Estimates report, either following the monthly World Crop Production report or after significant events affect the global supply/demand balance. USDA now issues the estimates on a timely basis and provides a complete assessment that includes the supply/demand balances for all the major commodities of other primary producing and consuming countries and the implications for trade. This information is now available for all the major commodities at the same time and is prepared under secured conditions.

The implementation of an increasingly comprehensive information system is essential to coordinate USDA's economic intelligence efforts. With world meat consumption on a steady uptrend and continued strong efforts to upgrade diets in many countries, including the USSR, it is critical that the integration of U.S. and world supply and demand estimates for crops as well as livestock be completed. Reduced progress in the implementation of such a system creates a potential for error in assessing the demand growth, both foreign and domestic, for food, fiber and livestock feed. As interdependencies and uncertainties increase, the possibility of error becomes particularly significant.

Recent Activities

As world agricultural systems become more interdependent with each other and with events in the nonagricultural sector, it becomes critical that U.S. and world supply and demand estimates for the major commodities are more effectively integrated and provided to market participants in a timely fashion. It does little good to implement a sophisticated analytical system if it fails to provide farmers and other participants in the system with equal access to the best assessments USDA can provide on production, utilization, trade, prices, and so forth.

An integrated information system is being put in place which will permit USDA to make the most effective use of our best analytical resource--the individual analysts. The developing system is structured to provide the information and analytical tools which will permit the best human judgment and insight of USDA analysts to guide the decision process. Historical data bases, graphical and statistical routines, trend analyses, and other data will all be available to the group-decision process within a secured area limiting external influences. As agriculture becomes increasingly complex, it is essential to create the best environment for the decision process.

In the past year, the Crop Reporting Board of the Statistical Reporting Service and the WAOB were moved into a single lock-up facility to maximize security conditions for compilation and analyses of world crop data and supply/demand estimates. Co-location with the Crop Reporting Board facilitates interaction between domestic and international assessment activities and eliminates the movement of highly sensitive data between two separate lock-up areas.

While striving to enhance the analytical capability, we also recognize that the potential for rapid information dissemination has expanded tremendously in recent years. Clearly, we must take increasing advantage of opportunities which exist to improve the timeliness of our information. We continue to review the alternatives available for placing information from the World Crop Production and World Agricultural Supply and Demand Estimates reports in the hands of farmers and other users as quickly and effectively as possible. Alternatives include effective use of extension personnel, land grant universities, state farm organizations, and others. The World Crop Production report and the World Agricultural Supply and Demand Estimates report are transmitted electronically upon release to all states which have access to the USDA extension information system. The telecommunications field has expanded rapidly in recent years and we hope to further tap that technology.

Budget Request

Our total budget request for fiscal year 1983 is $1,535,000. Exclusive of the $100,000 increase for acquisition of LANDSAT remote sensing data for Department-wide usage, the fiscal year 1983 budget represents less than a 1-percent increase ($13,000) over fiscal year 1982 availability of $1,422,000. Making up the increase is an addition of $69,000 for pay cost increases absorbed in fiscal year 1982 and a decrease of $56,000 for management reductions in operating costs.

Acquisition of LANDSAT Data

WAOB requests $100,000 for the acquisition of LANDSAT remote sensing data by USDA. LANDSAT satellites, which constitute the civil land observation satellite system, generate valuable information which may contribute to the monitoring and assessment of global crop conditions. This information also serves as an important tool for AgRISTARS, a major multi-agency research program to develop and test applications of aerospace data in agriculture and forestry.

In the past, LANDSAT data was obtained from the National Aeronautics and Space Administration at a minimal charge to USDA. However, to achieve a more realistic assessment of the value of this data, this Administration has established a policy to recover the full cost of LANDSAT management and operations through user fees.

As part of our responsibility to coordinate remote sensing activities within USDA, we would ensure that resource requirments for the purchase of remote sensing data are met.

We also request $69,000 for increased pay act costs which were absorbed in fiscal year 1982, but which are needed to fully fund personnel expenses in 1983. Since salary funds comprise more than 70 percent of the budget, the need for these resources is especially critical.

This concludes my statement, Mr. Chairman. My associates and I are prepared to answer any questions you may have concerning the WAOB programs and budget request.

BIOGRAPHICAL SKETCHES

WILLIAM G. LESHER
ASSISTANT SECRETARY FOR ECONOMICS

William Lesher was sworn in as Assistant Secretary for Economics April 10, 1981. Lesher was nominated for the position February 11, 1981, and confirmed by the U.S. Senate April 8, 1981.

Lesher had been chief economist for the U.S. Senate Committee on Agriculture, Nutrition, and Forestry since August 1980.

A native of Logansport, Ind., Lesher was born March 21, 1946, and spent his early years on the family farm in Royal Center, Ind. He received his bachelors degree in agronomy from Purdue University, W. Lafayette, Ind., in 1968; his masters degree from Oregon State University, Corvallis, in 1970; and his doctorate in public policy analysis from Cornell University, Ithaca, N.Y., in 1977.

From 1968 to 1970, Lesher was a National Defense Education Act fellow at Oregon State University's Department of Agricultural Economics and then served in the U.S. Army until 1972.

From 1972 to 1977, he did research and taught at Cornell University's Department of Agricultural Economics, becoming an acting assistant professor in 1976.

In 1977, he became an agricultural legislative assistant for U.S. Senator Richard G. Lugar (R-Ind.). He accepted a post as economist for the U.S. Senate Committee on Agriculture, Nutrition, and Forestry in 1978 and became chief economist in 1980.

Lesher is the author or co-author of numerous economic publications.

William E. Kibler

Mr. Kibler grew up on a general farm in Laurens County, Georgia. He attended the University of Georgia where he received an MSA Degree in Agricultural Economics and Statistics. He began his crop and livestock reporting work in the Division of Statistics of the North Carolina Department of Agriculture in 1952 as an Agricultural Statistician. In 1960 he completed a year's graduate work in mathematics and statistics at North Carolina State University. From 1961 to 1974 he held various assignments within the Statistical Reporting Service of USDA in Washington, D.C.

From 1964 to 1967 he served as head of the Statistical Methods Group where he directed research projects for the promotion and improvement of statistical methods employed by USDA in preparing crop and livestock estimates. From 1967 to 1970 he was Chief of the Research and Development Branch where he directed the Agency's program of research and development in theoretical and applied statistical methods. He served as Director of the Standards and Research Division administering programs involving research in the methodology of agricultural data collection, estimation and forecasting, and coordinating the improvement of USDA statistics in 1971 and 1972. From 1972 to 1974 he was Director of the Survey Division with responsibility for administering data collection and processing operations for the SRS crop and livestock estimating program. During 1975 he served as Statistician-in-Charge of the SRS North Carolina State Statistical Office in Raleigh. In November 1975 he was appointed Administrator of SRS; in January 1978 Deputy Administrator for Statistics of the Economics and Statistics Service; and is currently Acting Administrator of the Statistical Reporting Service.

Mr. Kibler received a fellowship from the Woodrow Wilson School of Public and International Affairs at Princeton University in 1967. He spent a year (1967-68) at that graduate institution studying Economic Development and Modernization as a Princeton Fellow. In 1980 he received a Senior Executive Service Rank Meritorious Executive Award.

He served as a member of the USDA Graduate School faculty in the Department of Mathematics and Statistics for 10 years and currently serves as a member of its General Administration Board. He holds memberships in the American Agricultural Economic Association, the International Association of Agricultural Economists, the International Association of Survey Statisticians, and the American Statistical Association. In June 1981 he was elected a Fellow of the ASA.

DONALD W. BARROWMAN

Donald W. Barrowman is currently Director of the Estimates Division of the Statistical Reporting Service. He joined SRS in the Colorado State Statistical Office in 1950 and has served also in Washington, New Jersey, and Missouri, as Statistician in Charge of the latter two offices. Two previous tours of duty in Washington, D.C. covered work as a commodity statistician and as SRS/Census Liaison. Overseas assignments have included short-term technical assistance missions in Sudan and Vietnam. Mr. Barrowman is a native of Colorado and attended both the University of Colorado and Colorado State University, where he graduated with honors in 1949. He is married, has two daughters, and lives in Annandale, Virginia.

Raymond R. Hancock

Mr. Hancock grew up on a general farm in Turner County, Georgia. He received his B.S. and then his M.S. degree from the University of Georgia in Agricultural Economics in 1956 and 1957. He began his career in crop and livestock reporting work in the Georgia State Statistical Office as a student trainee in July 1955. He served in both the Georgia and Florida State Statistical Offices before coming to Washington, D.C. as a staff member for the Crop Reporting Board. He served in the Statistical Clearance Office, Research Division and as the national cotton and tobacco commodity expert in Estimates Division before being named as Head of the Fruit and Vegetable Section, Crops Branch in February 1971. From 1973 to 1975 he was Statistician-in-Charge of the Kansas State Statistical Office and was responsible for the Federal/State crop and livestock estimating reporting program. From 1976 to 1980 he was Chief of the Data Collection Branch, Survey Division with responsibility for formulating and recommending the policies and programs for the major data collection activity of the agency. Currently, he is Director of the State Statistical Division with responsibility for managing and supervising the 44 State Statistical Offices that cover all 50 States.

JOHN E. LEE, JR.

John E. Lee, Jr. is Acting Administrator, Economic Research Service, USDA. From June to September 1981, he served as Acting Deputy Administrator for Economics of the Economics and Statistics Service.

Prior to June, he was Director of the National Economics Division of what is now ERS. The National Economics Division focuses on the domestic (U.S.) food and fiber system. Specific programs cover inputs and finance, the farm sector, the food system beyond the farm gate, crop and livestock commodities and commodity systems, agricultural and food policy, economic performance and well-being indicators, and agricultural history. He served in that position and as Director of predecessor Divisions from 1971 to June 1981. From 1967 to 1971, he was Chief of the Agricultural Finance Branch (ERS). Prior to that time, he conducted research in farm management, production economics, and agricultural policy on the staff of ERS.

He is a native of Pickens County, Alabama, and received B.S. and M.S. degrees from Auburn University and the Ph.D. from Harvard University before joining USDA in 1962.

GEORGE HOFFMAN

George Hoffman is Acting Deputy Administrator, Economic Research Service, U.S. Department of Agriculture.

From 1979 through 1981 he was the Branch Chief of the Economic Indicators and Statistics Branch, National Economics Division, ERS. The Economic Indicators Branch is responsible for maintaining the data base, conducting analyses and providing forecasts for the general economy and the agricultural economy including farm income, food prices and consumption, agricultural productivity, enterprise costs of production, and the balance sheet of the farming sector. From 1973 to 1979 he was responsible for conducting research, analyses and forecasts for the livestock and meat industry in the Animal Products Branch of the National Economics Division. He is a native of Ida Grove, Iowa and received B.S. and M.S. degrees from Colorado State University and the Ph.D. from the University of Minnesota

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TERRY N. BARR

Terry N. Barr is the Acting Chairman of the World Agricultural Outlook Board of the U.S. Department of Agriculture. In this position, he is concerned with all facets of the food and fiber system on both international and domestic levels, with particular emphasis on the increasing interdependency of domestic and world food and agricultural systems.

Dr. Barr has served with the Department of Agriculture since 1971, working first in the area of food consumption and aggregate demand analysis. He later directed a program of research and information encompassing all sectors of the food system and its role in the U.S. economy.

Dr. Barr grew up in the small agricultural community of Yakima, Washington. He graduated from Washington State University in 1971 with a Ph.D. in economics.

STATEMENT HIGHLIGHTS

Senator **Cochran**. I would ask you to proceed, making any summary statements or highlighting your statements as you wish for the benefit of the subcommittee, and introducing any colleagues who may be accompanying you. Then we will proceed with some questions that may occur to us as we go along.

Dr. Lesher, welcome.

Dr. **Lesher**. Mr. Chairman, it is a pleasure to be here this morning. I do not have a prepared statement. The agencies within my jurisdiction are those that are involved with data analysis activities. Although the combined budgets of all the agencies represented here do not exceed $100 million, we consider ourselves to be a very important and integral part of the Department of Agriculture, and we represent one of the Department of Agriculture's primary missions.

With that, Mr. Chairman, we can move forward with the statements of the administrators.

Senator **Cochran**. I think that is a very good precedent.

Mr. Ahalt.

Mr. **Ahalt**. I am going to pass, Mr. Chairman.

Senator **Cochran**. Well, Mr. Lee, we have a statement from the Economic Research Service; you may proceed.

Economic Research Service

STATEMENT OF JOHN E. LEE

Dr. **Lee**. Thank you, Mr. Chairman. I am happy to have this opportunity, the first opportunity I have had to discuss the programs of the Economic Research Service with this committee. The statement is in the record. I won't repeat it.

PROGRAM REDIRECTIONS

You have indicated what the purpose of the agency is. I would just like to make a few brief comments. One is that we are constantly changing our program in an attempt to deal with the priorities of the times. The Economic Research Service's program is never the same from one year to the next. We are constantly phasing out old programs in order to redirect resources to higher priority issues and needs. We try to stay attuned to what the issues are in the agricultural community. We try to redirect our resources to be responsive to those issues that you in the Congress, people in the Department of Agriculture, farmers, and others in agriculture have to deal with, while also trying to anticipate issues that you would likely have to deal with in the years ahead.

We have made changes in our programs in order to increase efficiency and redirect to higher priorities. We have had a tremendous increase in the demand for economic intelligence, but we also recognize the tremendous importance of the President achieving his objective of reducing the Federal budget, so we are trying to meet our needs by redirecting rather than requesting additional resources at this time. Our objective is to make sure every dollar and every person in the agency are allocated to the highest priority needs and are serving American agriculture well.

BUDGET REQUEST

We are proposing a budget of $40,584,000 for 1983. That is a net increase of approximately 3 percent. Our request consists of two increase items to cover some increased cost of doing business, and two decrease items that reflect changes we can make in our program that bring about savings but don't change the substance of our program. So in effect our program level is virtually unchanged from 1982.

INCREASED COSTS

One increase item is to cover the pay cost and the increases in the pay cap that we absorbed this year. We absorbed cost increases by making some temporary changes and adopting some expediencies that will get us through this year, but continuing on that basis will result in significant deterioration of our program.

The other increase item is for the higher cost of doing business—increased space cost and the cost of essential services provided us by the Department of Agriculture. Those are basically the two sources of increased cost to the agency.

One decrease item is the reduction of $940,000 that is currently being spent on the "Farmers' Newsletter." We have looked at this carefully. We believe that the information provided in those newsletters can now be provided through other sources that can more effectively reach the farmer and provide information more directly appropriate to farmers' needs in terms of both the commodities they produce and the region they are in. It is very difficult for us to do this in a national program from Washington without a much larger, more detailed program than exists today.

USER FEES FOR PUBLICATIONS

The other decrease is a $1.2 million reduction in savings that we expect to realize by selling our publications rather than giving them away. Again, we have tested this idea with farm groups and others, and, in general, we get a favorable response. These groups consider it to be consistent with what they think the President is trying to do, and they are willing to pay the cost if it is reasonable. We will continue to provide a limited number of free copies to the Congress, and to other extenders of information, such as the media, and libraries.

We at the same time recognize that we are an information agency and that the food and fiber system basically operates off the information provided by the Economic Research Service. We are now studying new means of disseminating information to farmers, including some of the emerging electronic means. We believe over the next 5 or 10 years there will be an explosion in technology that is quite different from what we have today. It will enable us to better get information to individual farmers through more cost-effective means than is currently available. We are watching that technology closely.

Mr. Chairman, that concludes what I have to say. I will be happy to answer any questions.

Senator COCHRAN. I may have some questions later. I think at this point we will go to Mr. William Kibler with the Statistical Reporting Service, and then next to Dr. Barr to complete all our statements, and then we will come back to questions.

STATISTICAL REPORTING SERVICE

STATEMENT OF WILLIAM E. KIBLER

Mr. KIBLER. Thank you, Mr. Chairman. It is a pleasure for me to appear before this group this morning to talk about our 1983 budget request. The SRS budget request totals $53,694,000. It includes one new program item, and that is $900,000 for improving the data that we publish quarterly on grain stocks relating to stocks that farmers have on the farms they operate.

A couple of things that might be of interest to the subcommittee are: (1) The fact that we cover about 150 crop items and 50 livestock items in the more than 400 reports we publish each year. In this budget we will be dropping some of these crop and livestock items, but our basic program will still be intact. (2) We also have what, we think, is a pretty sound research program for developing ways to improve the accuracy, reliability and efficiency of our survey procedures.

One of the features of our program that strengthens our service is our 44 field offices that cooperate jointly with the State departments of agriculture and land grant universities in providing sub-State data needed for counties and regions within a State.

PROGRAM CHANGES FOR FISCAL YEAR 1983

The major change reflected in the 1983 budget relates to the quarterly on-farm grain stock survey. This is one of the few remaining surveys we conduct on a nonprobability basis. Over the past few years, the portion of our total grain stored on farms has increased significantly. An outside group of qualified statisticians that studied our sampling and survey procedures suggested we move as rapidly as possible to a sound statistical basis for doing those surveys. We are recommending those improvements for the onfarm grain stocks surveys in fiscal year 1983.

We, like the ERS, are shifting to a subscription basis for the reports we release. This is expected to save about $1.2 million. We will continue to provide free copies of our reports to the farmers and the agribusinesses who supply basic data for our statistical reports. However, those users who write in and ask to be put on our mailing list will be charged a subscription rate established by the Government Printing Office for that particular report.

There is another change in policy that is reflected in our budget. It is the acquisition of satellite data for research purposes. The OMB has made a decision that user agencies should pay a fairer share of the total handling costs. This is a $300,000 item in our budget for the photography currently used.

We have some recommended increases associated with maintaining the ongoing statistical program, covering pay act costs and offsetting inflationary costs. These total about $3.4 million combined.

Another basic change in policy that is highlighted in the fiscal year 1983 budget relates to surveys and reports that are not required for the administration of USDA programs or agricultural policy decisions in the executive or legislative branch. These surveys cost about $1.1 million annually. We have identified these for elimination in our budget. Our position is that, if the industry people who use any particular report or data series desire to continue it and can provide the funds for handling the work, we would reinstate that data series on a full-fee basis under a trust fund arrangement.

Mr. Chairman, that highlights the items that are in my statement. I would be glad to respond to questions when we get to that portion of the hearing.

Senator COCHRAN. Thank you very much, Mr. Kibler.

Dr. Barr.

WORLD AGRICULTURAL OUTLOOK BOARD

STATEMENT OF TERRY N. BARR

Dr. BARR. Thank you, Mr. Chairman.

As you have indicated, the basic mission of the World Agricultural Outlook Board is to serve as the focal point for economic assessment of information activities within the Department. Although we are a small agency, we take our responsibility within the Department very seriously.

The Department possesses a wide range of expertise among its agencies, and the analysts within these agencies are operating to achieve various missions, such as export promotion, administration of domestic farm programs, economic research, and plant and animal research. Every analyst brings a different perspective to the intelligence activities of the Department.

The World Board's mission is to coordinate this expertise in the Department in order to provide the most accurate and timely assessment of the economic outlook. This information is quickly disseminated not only to the Secretary of Agriculture, but also to farmers and other members of the public who have a stake in the agricultural economy.

The basic vehicle used to coordinate this expertise is the interagency commodity estimates committees. These committees are chaired by WAOB staff members and include representatives from the Economic Research Service, Foreign Agricultural Service, Agricultural Stabilization and Conservation Service, the Agricultural Marketing Service, and other agencies within the Department who bring a particular perspective to ongoing assessment activities.

JOINT AGRICULTURAL WEATHER FACILITY

In recognition of the important influence of weather and climate upon agricultural production and the U.S. and world agricultural outlook, the Board operates a Joint Agricultural Weather Facility. The facility, which is operated in conjunction with the National

Oceanic and Atmospheric Administration, monitors weather developments around the world on a daily basis. This meteorological data, coupled with information that we possess on crop areas, soil types and plant physiology, are utilized to give us much more accurate and up-to-date information on crop developments around the world and how they impact on U.S. agriculture and commodity demand.

WAOB BUDGET REQUEST

Our total budget request for fiscal year 1983 is $1,535,000. Exclusive of the $100,000 increase for acquisition of LANDSAT remote sensing data, we are asking for less than a 1-percent increase over the fiscal year 1982 budget. This increase is comprised of $69,000 for restoration of Pay Act costs that were absorbed in fiscal year 1982, and a $56,000 reduction for management adjustments as a result of our efforts to achieve more efficiency in our daily operations.

As Mr. Kibler has indicated, the $100,000 increase for LANDSAT data acquisition reflects the administration's effort to recover the costs of LANDSAT management and operations through user fees. Although the Board itself does not have an operational LANDSAT or remote sensing program, it is responsible for the overall coordination of remote sensing activities throughout the Department. As such, the requested funds would be earmarked for data acquisition needed to carry out special projects and analyses. If serious questions were raised about the impact of an event in a particular area of the world, we would have funds available to acquire remote sensing data in order to make assessments. LANDSAT data may also be acquired for a particular component of research activity to supplement ongoing analytical procedures.

That is a brief summary of my statement, Mr. Chairman. I will be happy to answer any questions you may have.

Senator **Cochran**. Thank you very much, Dr. Barr.

SURVEY RESPONDENT BURDEN

In collecting this data that is used by the Statistical Reporting Service, and I suppose by the Economic Research Service as well, I know you have to conduct surveys, send out questionnaires and the like. Is the amount of forms that are inadequately filled out by farmers increasing or decreasing? We hear some complaints about all the paperwork that is being required of everybody by the Government. This is a complaint we run into from time to time. What is your assessment of the real burden that is imposed on those who are called upon by you to furnish information from which you make these estimates and reports?

Mr. **Kibler**. The total response burden we are expecting for the 1982 crop and livestock season is up about 3 or 4 percent from what it was in 1981. If the 1983 budget goes through as planned, we expect to see that figure turn down in the 1983 time frame.

CUTBACK IN FISCAL YEAR 1982 SRS PROGRAM

Senator **Cochran**. I notice that there was a release put out yesterday that says the Department's Statistical Reporting Service is eliminating or cutting back portions of its crop and livestock estimating programs. It then lists some 26 reports including such things as commercial fertilizer, reports of consumption, monthly reports of catfish process, field, seed, stocks, and others. Because you are cutting back and eliminating a lot of these reports, does this mean you are also going to be reducing the requests for information and form filling out by farmers?

Mr. **Kibler**. Yes, sir, we certainly will.

Senator **Cochran**. What is your assessment of the impact of this action? Will you get an adverse reaction from the groups that usually rely upon the information contained in these reports?

Mr. **Kibler**. The impact will probably be most significant, Mr. Chairman, for those groups where we have eliminated the last statistical information that is put out either on a semiannual or annual basis for some of the industries that you mentioned. You will notice that the announcement did point out to these groups that if the industry feels that the information is of significant value and can provide the funding, we would continue the programs. In the past, when we have worked with industry people on setting the priority of items they need most, they prefer to reduce the scope to control costs. Thus, if they want to develop a modified version of the report as done in the past, we certainly would work with them on this effort.

Senator **Cochran**. How much savings will be realized as a result of these cutbacks?

Mr. **Kibler**. We are facing in the fiscal year 1982 budget timeframe about a 10-percent deficit or about $5 million. There is a corresponding reduction in the full program that we had originally outlined to be done in fiscal year 1982. We have done as much as possible in accomplishing efficiencies and reducing costs other than actually eliminating programs which that news release addressed.

SRS FISCAL YEAR RESOURCE LEVELS

Senator **Cochran**. Did you say that the Statistical Reporting Service was coming in for a 10-percent cut?

Mr. **Kibler**. What I referred to is that for the fiscal year 1982 budget the Statistical Reporting Service is looking at what is, in essence, a 10-percent cut in its program budget level from the fiscal year 1981 level. That consists of an across-the-board cut of 4 percent, the absorption of 4.8 percent Pay Act cost, and some inflationary costs we have experienced.

Senator **Cochran**. There was a 4-percent, across-the-board cut contained in the continuing resolution, but the Department of Agriculture hasn't been subjected to a 4 percent across-the-board cut.

Mr. **Kibler**. Yes, sir, I think we were.

Mr. **Sherman**. Mr. Chairman, I believe with respect to the actual appropriation that was passed for the Department's programs, with respect to SRS and also ERS, the amounts provided in the appropriation were at the same levels as earlier had been included in that continuing resolution with the 4-percent reduction in it.

Senator **Cochran**. So it is 4-percent, but there was not a 4-percent, across-the-board cut.

Mr. **Sherman**. That is definitely correct.

Senator **Cochran**. You got a 4-percent cut, but not every agency within the Department.

Mr. **Kibler**. Yes.

ACCURACY OF CROP REPORTS

Senator **Cochran**. There is always a question about the accuracy of data in the reports that are made, whether you are talking about forecasts, plantings, yields, et cetera. What is your assessment of the quality of USDA data?

Mr. **Kibler**. We include a section describing the quality and giving some statistical measures about the reliability of all major reports we released. These data show that, if for example, one is forecasting soybean production early in the season when there is still much that can happen to it—weather, insects—those forecast errors tend to be larger than at the end of the growing season. If you look at those forecast errors for fiscal year 1982 compared to 5 or 6 years ago, you will see they are decreasing a bit.

Some recent research work done by people at the University of Minnesota looked at accuracy levels over the last 20-year period. They concluded that improvements have been made in the quality and accuracy of the reports released.

National estimates of crops and livestock at harvest or inventory time have sampling errors of 1 to 2 percent. The State data published has sampling errors that are somewhat larger.

ACQUISITION OF LANDSAT DATA

Senator **Cochran**. Both you and Dr. Barr mentioned the LANDSAT program. In the explanatory notes it is indicated that LANDSAT data is of poor quality. Are we wasting money in this? Are we going to launch more satellites and end up wasting money if the data is not reliable? Could you make your estimates without using LANDSAT? I guess that is a question that could be answered by Mr. Kibler or Dr. Barr.

Mr. **Ahalt**. Mr. Chairman, can I take my pass back.

Senator **Cochran**. Surely.

Mr. **Ahalt**. That is a difficult question to respond to. The Department has, since the 1970's, had a number of programs underway using LANDSAT data. These programs have been of a research nature and have been primarily under Mr. Kibler's statistical reporting area, the AgRISTARS program. The Department has undertaken these activities, because we believe in the longer run it will help us get a better handle on estimating production, particularly in some of the foreign countries where we don't have access. But we have a long way to go, Mr. Chairman, in terms of using that information in a way that is cost effective. Our feeling continues to be that it is useful for us to continue putting resources into the LANDSAT programs, because we believe there will be some positive benefits that can be derived in the future.

Mr. **Kibler**. One of the specific items that is addressed in the explanatory notes, Mr. Chairman, was a technical problem with the mirror that goes back and forth to do the scanning. This malfunction caused parts of the scan lines to be dropped. The NASA people have corrected that technical problem.

Senator COCHRAN. When is the next LANDSAT satellite scheduled to be launched? Do you know?

Mr. AHALT. July of 1982.

FUNDS REQUESTED FOR LANDSAT DATA

Senator COCHRAN. In the budget, you have requested $300,000 for acquisition of this LANDSAT data. Is there a separate request in the World Agricultural Outlook Board or is this information shared by the agencies?

Dr. BARR. Are you referring to the $300,000 in the budget request for the Statistical Reporting Service?

Senator COCHRAN. Right.

Dr. BARR. There is an additional $100,000 in the World Board's budget request as well. All of these funds would be used for data acquisition related to remote sensing activities in other agencies within the Department.

Senator COCHRAN. It is not duplicative?

Dr. BARR. No, it is not. The funds in our budget would provide support to SRS if, for example, the need arose to conduct a special study or analysis. There are a number of other agencies involved in LANDSAT activities. If any of those agencies have requests for additional data, our budget would serve as a source of funding to cover the purchase of that data.

RURAL CREDIT

Senator COCHRAN. I wonder whether or not the Economic Research Service has analyzed the impact of proposed budget cuts for the next fiscal year in the rural credit programs administered by USDA. If you have, what is your assessment of the impact of those proposals?

Dr. LEE. Mr. Chairman, we have not specifically analyzed the impact of those cuts. We are watching the proposals in the Farmers Home Administration. We have not done any specific analysis yet on those proposed program reductions.

SOIL AND WATER CONSERVATION

Senator COCHRAN. We have a very serious problem all over the country, more serious in some places than others, with soil and water conservation problems. I think in some parts of my State, for instance, we are losing 20 tons per acre per year of soil from our farmlands. Has the Economic Research Service attempted to evaluate the effectiveness of programs that are being operated and administered by the Soil Conservation Service or other agencies to determine the effectiveness of what we are trying to do to correct those problems?

Dr. LEE. Mr. Chairman, we work very closely with the Soil Conservation Service in providing economic information useful to them in the management of their programs. We have worked very closely with them on the Resource Conservation Act, involving a very long and detailed analysis of the programs now underway, and we have done some analysis in providing input to them in their planning process over the past year. We have provided input to the Soil Conservation Service and to Dr. Lesher for his interaction at the Department level on programs in soil conservation.

Senator COCHRAN. Do you play a role at this time in the development of the Secretary's new soil and water conservation policy?

Dr. LEE. We don't play a direct role. We do economic analysis that is useful to the Department and to the Soil Conservation Service in the development of those programs. We in the Economic Research Service do not play a direct role.

Senator COCHRAN. We realize that the Foreign Agricultural Service, as well as the Economic Research Service, do market analyses. How do you assess the possibility of duplication of functions? Is there any merit to proposing a combining of these two activities?

Dr. LEE. No, sir. We work very closely with the Foreign Agricultural Service, and we attempt to work out a division of labor. They are primarily a program-oriented agency whose mission is to promote U.S. agricultural exports. They have access to information through the attaches so they have a good access to current information on developments in countries all over the world. They make that information available to us. The Economic Research Service focuses very heavily on trying to do the underlying supply and demand analysis for the longer run, so we can help FAS pinpoint where they can best target their export promotion activity, where the opportunities for expanding exports are greatest, and to give them more of a basic research underpinning for their program. The two programs fit together very well.

In addition, we do maintain in the Economic Research Service, specifically in our International Economics Division, a strong international economic analysis capability. We are constantly monitoring developments in regions all over the world and what that means in terms of demand for our products, not only for the short term but for the long term, as well. We work very closely with the FAS in providing information to them. We view ourselves as an important partner of FAS.

Senator COCHRAN. What are some of the conclusions that you are reaching now in trying to look to the future? What are the prospects, for instance, for American agricultural exports?

Dr. LEE. For the longer run, Mr. Chairman, we think they are very good. The international economic conditions at the moment, combined with relatively large supplies in most of the regions of the world, have held us in a temporarily flat situation. As you know, the value of exports for this year likely will not exceed last year's level. I am not sure I have that number exactly right on value——

Dr. LESHER. Volume up and value down.

Dr. LEE. The volume is up. The interesting thing to observe is the underlying growth in demand for U.S. products despite the fact that U.S. farmers are getting much too low a price for that product. When the exchange rate is considered, the foreign buyers of those products who pay in dollars for what they buy from us, are actually paying anywhere from 10 to 50 percent more for those products in some countries than they were last year. So, in effect, we are pushing more volume overseas now despite the fact that the buyer is paying a higher price than before. Our farmers are not seeing that price because of the differences in the exchange rates.

ACREAGE REDUCTION PROGRAM

Senator COCHRAN. Have you been called upon to do any analysis of the impact on supply of the set-aside acreage reduction program that has been announced and implemented by the Secretary?

Dr. LEE. That analysis is done primarily through ASCS. We do provide research backup and assistance to them.

Senator COCHRAN. Do you have any indication from past experience about the effectiveness of such acreage reduction programs? Can you expect, with other things being equal, that there will be a reduction in supply when a program of that kind is implemented?

Dr. LEE. Yes, sir, we have some indication of that. We do think there will be a reduction in supply resulting from these programs. The extent, of course, depends entirely on the level of participation, and that level depends on farmers' expectations about not only what they think prices will be, but also what they think other farmers are going to do. They develop their strategy accordingly. We don't know yet what the level of participation will be. We feel that this year it will be important for farmers to participate.

Senator COCHRAN. Are you looking for food production in the United States to be greater next year than it was this year?

Dr. LEE. Mr. Chairman, since that depends so heavily on crop and weather conditions for the remainder of this year, it is almost impossible to say. If we get yields like last year's, we will have another bumper crop. But it is difficult to forecast that this far in advance. We are monitoring things like ground moisture and weather conditions, but there is too much time between now and the harvest time to be able to make an accurate forecast. For that reason, it is very difficult to know what prices are going to be and how that is going to translate into the well-being of the farm sector at this point in time. We found, from looking back at our past efforts to do this, that there are large differences between possible outcomes as we see them at this time of year and what actually transpires at the end of the year.

OUTLOOK FOR NET FARM INCOME

Senator COCHRAN. So those who are saying the outlook for net farm income next year is dismal are guessing, or are there facts to assess that really form a logical basis for that conclusion?

Dr. LESHER. As a matter of fact, Mr. Chairman, we have testified before your counterpart on the House side that we don't think net farm income will be any higher in 1982 than it was in 1981. The probability is that it may be lower. We just don't know how much lower, because net farm income depends on so many factors. For example, if our forecast of the interest rate is off by 1 percentage point, there would be a change in net farm income of over a billion dollars. If our estimate of the cost of feed is off by a small amount, there would be massive swings in farm income. Mr. Chairman, if you return to Mississippi next week and ask the farmers to predict their net farm income in 1982, they all would say that it depends on many factors, including the weather and the interest rates. We are faced with the same problem.

We will not have a good estimate of 1981 net farm income until after July when all the farm expense data becomes available. The only realistic conclusion we can draw is that farmers face a tough situation. It is difficult to forecast exactly how tough their economic situation will be.

Senator **COCHRAN**. Some farmers have told me, for instance, that they cannot at this time put down on paper their projected expenses, cost of production and expected market prices and see that they have a chance of operating at a profit this next year. Is that an illogical, inappropriate conclusion for them to draw?

Dr. **LESHER**. Mr. Chairman, as you know, each farm and each farmer are really in a different situation based on their management style, the crop enterprises they have—hogs, cattle, horses, wheat, soybeans, et cetera. So that is a difficult thing to say. Clearly, Mr. Chairman, at the current cash price, no one is going to be making any money. One just doesn't know how prices will fluctuate in the next 6 to 9 months. There is some protection in the farm bill with the target prices for wheat and feed grains and others that will help out somewhat. The dairy farmer is probably in much better shape than many other farmers. A lot depends on the individual farmer.

Senator **COCHRAN**. I assume, too, you are looking at the decline in inflation; the costs of production are not increasing at the rates they have been increasing if you look at the last few months as indicators.

Dr. **LESHER**. That is correct. We don't think many costs of production will increase by more than 5 or 6 percent which is significantly less than the last 2 or 3 years. It is a dramatic decline. The decrease in oil prices is one reason, but other factors figure in the decline as well.

SECURITY LOCKUP FACILITY

Senator **COCHRAN**. I remember last year when we were talking about making forecasts of world crop conditions and about the importance of security, you had a lockup facility that was being put in place. Has this been completed or what is the status of that effort?

Dr. **BARR**. Mr. Chairman, the World Agricultural Outlook Board and the U.S. Crop Reporting Board moved into a single lockup facility in fiscal year 1981. This action has maximized security conditions for compilation and analysis of world crop data and supply and demand estimates, and it has eliminated the movement of highly sensitive information between two separate lockup areas. Collocation with the SRS Crop Reporting Board has also facilitated interaction between domestic and international assessment activities. That is, analysts are now able to evaluate international and domestic data in the same context.

USER FEE PUBLICATIONS

Senator **COCHRAN**. There was some discussion about reducing or eliminating publications both in the Economic Research Service and in the Statistical Reporting Service. I wonder, Dr. Lee, do you have any figures you could share with us about the total number of publications that you put out and distribute in your shop?

Dr. **Lee**. We do, Mr. Chairman. I don't have them here in front of me. I can provide that for the record. (See below under submitted question, page 191). There is a slight decline in total publications this year as we try to consolidate and save. We are attempting to disseminate the information provided in some of the less essential publications by other means. We have had a slight reduction in the total number of publications and hope to have a few less next year as we achieve other consolidations and savings. The thing we are trying to keep in mind is that, while we are saving money, we must continue getting the information out to people who need it.

FARMERS' NEWSLETTER

Senator **Cochran**. You mentioned specifically eliminating the "Newsletter" and one other publication that will permit you to submit this decrease in your budget request, or what amounts to an overall 3-percent increase.

Dr. **Lee**. The "Farmers' Newsletter" program was begun 4 years ago. We have monitored that very carefully and now believe that the information that was provided in those newsletters is available to farmers through other means that are more effective. We have great difficulty making those newsletters specific enough for farmers in a given State producing a given commodity. Extension agents and the farm media magazines focus on those regions and do a better job of targeting specific needs of farmers through marketing information. We felt it would be better for us to focus on providing good general information on longer term supply and demand forces that these other analysts could use as a takeoff point in providing information to farmers.

USER FEES FOR PUBLICATIONS

Senator **Cochran**. Will there be charges made for subscription to all of these publications? How do you decide what to charge and how much?

Dr. **Lee**. We are going to charge for all of our publications. We will have a limited number of free copies of each one that is available for the Congress, the news media, the Extension agents, and a few libraries; that is, people who are primarily extenders of our data. For example, some of the things that we put out are reproduced hundreds of times in other articles and other stories in other places. Most people who read the farm magazines, for example, will see the corn outlook page or soybean outlook page and not realize that the data and information are coming from the Economic Research Service. We intend to make sure that all those media sources continue to receive publications free of charge, but we will charge subscription fees to the general public on all of our publications. The periodicals will be sold through the Superintendent of Documents. The cost will be designed to cover the postage cost, which is the largest single cost, and the printing cost. We will not charge for the background analysis. We won't charge for services which we are already funded through appropriations, but just the marginal cost of getting it from us to the individual user.

The research publications will be sold on an individual basis, and we will distribute very widely the information on the availability and cost of those publications. Again, the charge will be designed to cover the printing and postage cost, postage being the primary cost. Some small individual publications will cost anywhere from 50 cents to close to a dollar to mail, and for large mailing lists those costs become enormous. We are going to keep those subscription costs as low as possible to effect the savings we have asked for.

Senator Cochran. Does the Government Printing Office collect those fees, or do you have some mechanism for doing that in your office?

Dr. Lee. The farm bill gave the Economic Research Service and Statistical Reporting Service the authority to collect subscription fees. The Economic Research Service and the Statistical Reporting Service have looked at the cost-effectiveness of collecting fees ourselves versus going through the Superintendent of Documents. The Superintendent of Documents appears to be the most cost-effective means. It eliminates the need to set up a staff for fee collection. Not having to deal with that aspect increases our overall efficiency. We are going to do it this way provided our first year's experience shows the Superintendent of Documents is doing a good job in servicing people's requests. If we find that is not the case, then we will explore alternatives.

PORTION OF FISCAL YEAR 1983 BUDGET FOR PERSONNEL COSTS

Senator Cochran. I am assuming that most of your budget request is made up of money to pay people—salaries for personnel.

Dr. Lee. Yes, sir.

Senator Cochran. What is that percentage?

Mr. DiGregorio. About 70 percent in ERS.

Senator Cochran. Is that about the same for your office, Mr. Kibler?

Mr. Kibler. No, sir, the SRS percentage would be lower. It would be between 52 and 53 percent, simply because we spend a large portion for collection of data.

Senator Cochran. What do you mean? Do you pay other people?

Mr. Kibler. We pay other people to collect data.

Senator Cochran. Who do you pay for that?

Mr. Kibler. We pay enumerators who are employed by the National Association of State Departments of Agriculture with whom we have a cooperative agreement. There are about 2,500 to 3,000 of those enumerators who are hired to collect the data.

Senator Cochran. They work out of offices?

Mr. Kibler. No, they don't operate in offices; they work out of their homes in the field. Each person essentially covers one or two counties. They are people located in the rural area.

Senator Cochran. Are they on the payrolls of any States?

Mr. Kibler. They are on the payroll of the National Association of State Departments of Agriculture. They only work part-time for specified survey weeks. Most of them work about half time.

SUBMITTED QUESTIONS

Senator **Cochran**. We have some more questions that I have not been able to get to. If we submit them to you, I hope you will be able to respond to us. Because of time constraints, I think we probably better at this time move on to our second panel. I want to thank each of you for being here and for the manner in which you have made your statements to the subcommittee. Thank you very much.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ECONOMIC RESEARCH SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

USERS' FEES FOR PUBLICATIONS

You indicated in your statement that Economic Research publications would no longer be given out free of charge.

Question: How many publications are put out by the Economic Research Service?

Answer: The Economic Research Service published 26 separate titles in its Outlook and Situation report series during FY 81, 125 individual research reports, and four monthly or quarterly publications to special user groups.

Question: Has a fee schedule been established yet? Please provide a table listing publication and proposed charges for each.

Answer: All Economic Research Service reports will be on a purchase basis through either the Government Printing Office (GPO) or the National Technical Information Service (NTIS) of the Department of Commerce after May 1. The price of a report will depend on the number of pages and frequency. The minimum price for a monograph through NTIS is $6.00; a 50-page report costs about $7.50 (NTIS sells microfiche copies for $4.00). The minimum price from GPO is $2.25; a 50-page report costs about $3.00. In the case of periodicals, GPO charges between $5.00 and $9.00 for those 32-page reports released semi-annually or quarterly.

Question: Who will collect these fees?

Answer: The money collected through subscriptions will remain with the selling organization, either the Government Printing Office or the National Technical Information Service.

OPERATING COSTS

Question: If the proposed increase in operating funds is not granted, what effect will this have on the basic mission of the Economic Research Service (ERS)?

Answer: ERS is requesting an increase in FY 1983 funding of $1.64 million to cover increases in operating costs and $1.724 million to cover pay cost increases. Combined, these two increases represent about 8 percent of the proposed FY 1983 budget. If these increases in costs are not granted the basic ERS program content must be reduced. Over the past two years we have absorbed cost increases by reducing support services for the research staff such as ADP, travel, and support staff. In addition, contracts and agreements have been sharply curtailed. In FY 1983 we are planning to discontinue the Farmers' Newsletters and to establish user fees for our publications in order to hold down budget expenditures. In sum, we have been trying to maintain our basic research program while reducing program support. We will be unable to continue on this course in 1983. Staff support has already been reduced to a minimum level. Salaries and benefits now account for about 70 percent of appropriated funds. Further reductions in the budget or absorption of cost increases will mean reductions in program content. The basic mission of the agency will remain unchanged, and that is to provide decisionmakers with timely reliable economic information, but with further budget cuts the scope and depth of that economic intelligence will not be as broad as before.

EXTRAMURAL RESEARCH

Question: What portion of your Economic Research Service budget is conducted extramurally? Please compare fiscal years 1981, 1982 and 1983.

Answer: ERS spent $6.5 million in 1981 and plans to spend $3.9 million each in 1982 and 1983. ERS had to reduce its extramural program in 1982 because of absorption of pay costs and other increased operating costs.

I am inserting a table for the record which distributes our extramural program into four categories for 1981, 1982, and 1983.

The information follows:

Economic Research Service
Extramural Program 1981 - 1983
(Million Dollars)

	1981	1982	1983
Research agreements with universities or private source directed by a non-ERS employee	2.0	.4	.4
Economic Data purchases from private sources and other government agencies.	3.0	2.1	2.1
ADP Usage	1.2	1.3	1.3
Miscellaneous contracts not elsewhere classified	.3	.1	.1
TOTAL	6.5	3.9	3.9

EXTRAMURAL RESEARCH

Question: What type of research is done extramurally?

Answer: The Economic Research Service will devote about 1 percent of its appropriated funds in FY 1982 to research agreements with universities and private sources. Nearly all these agreements are with Land Grant Universities. These agreements are for research which is mutually beneficial to ERS and the contractor. While the subject matter of extramural agreements varies widely, the major type of research conducted under extramural agreement is that which is fairly specialized and/or short-term and involves issues which complement the ongoing ERS research program. The limited use of extramural agreements is cost-effective for these specialized studies because ERS is able to bring the best research and information to bear on a current issue without maintaining a large staff and related overhead costs. Funds used for extramural agreements are substantially more flexible than funds devoted to agency staffing and can therefore be more quickly redirected to focus on the highest priority issues, particularly those issues which are transitory in nature.

FARM DEBT

Total farm debt has risen tremendously over the past decade or so. It is my understanding that over 85 percent of the farm debt is now held by private agricultural lenders; however, Government lending plays an important role in agricultural credit.

Question: What effect will the Administration's proposed credit budget have on farm debt?

Answer: The FmHA is now focusing its attention on supervised lending to farmers who cannot obtain credit elsewhere. In the past many farmers who could have obtained loans elsewhere took advantage of low interest FmHA loans. These creditworthy farmers are now being referred to the Farm Credit System and other private lenders.

This shift in focus by FmHA will tend to slow the growth of farm debt, other things equal, because other lenders charge higher interest rates than those charged by FmHA. Of course this is only one of many factors affecting the level of farm debt. Other include commodity prices, farm income, incentives to expand farm operations, and expansion opportunities. During 1982 other factors, particularly farm income, are likely to more than offset the effects of the change in focus by FmHA.

ENERGY USE

It is indicated in your Explanatory Notes that you expect energy use by the farm sector to decline. We all know that energy use and costs have risen tremendously in the past few years.

Question: Will you please explain your analysis of energy use and the basis for that statement.

Answer: Despite the current and expected near term decreases in petroleum prices resulting from the worldwide crude oil glut, there continues to be considerable momentum in the farm sector for reducing energy use and production expenses through adopting conservation practices.

Rapid price increases and spot shortages experienced during the 1970's were instrumental in encouraging farmers to adopt such energy conserving measures as minimum or no tillage, improved fertilizer use practices, dieselization of power units, and more efficient irrigation systems. Once an investment in energy conservation is made there is little incentive to revert to the old way.

Also, the price of natural gas, an energy source heavily utilized by farmers in irrigation and crop drying, is continuing to rise. Ultimately with full decontrol, the price of natural gas would be expected to rise to the Btu equivalent of petroleum adding further incentive to economize in its use.

FOOD PRODUCTION

Question: What are your predictions on the prospects for world food production in the coming year and the years ahead?

Answer: The world food situation improved considerably in 1981/82 as food production increased by about 2.5 percent. Output of most foodstuffs, particularly grains and vegetable oils were at record levels in 1981 and world stocks will be building as we move into the 1982/83 food production year. While it is still very early the food production outlook for 1982 is generally favorable. Some acreage increases are expected, and weather to date has been favorable. Should these conditions hold, world food production increases plus the larger stock levels will leave more than adequate supplies of most agricultural products.

In the longer-term, the world food situation may remain about the same over the decade of the 1980's if normal weather prevails. A key unknown is Soviet grain production because shortfalls there will lead to major imports with a large impact on prices. Assuming normal weather there is expected to be a slight decline in the surplus of total world grain production over consumption from 1981/82 to the end of the decade. However, this assumes a sharp rise in Russian wheat production and stocks, which allows the world wheat stocks-to-use ratio to rise. For both coarse grains and rice the world stocks-to-use ratio would decline somewhat.

Regional differences in production, consumption and stock changes are striking. In the developing countries the gap between production and consumption is expected to grow in all the grains, while the surplus is expected to grow in the developed countries. The centrally planned countries would reduce their grain gap largely because of higher Russian wheat production.

FOOD PRODUCTION

Question: Does this mean we will have higher world food prices in the years ahead?

Answer: Growth in world food demand slowed in 1981/82 behind poorer economic prospects in most regions of the world, higher interest rates, and a continued deterioration in the financial positions among developing countries. This slowed growth in contrast with record supplies has had a generally depressing effect on world commodity prices. A significant improvement in food demand appears unlikely until economic recovery in the developed countries works its way through trade linkages in 1983 and 1984.

Longer-term projections suggest that the mid-to-late 1980's will be a period of renewed strong demand for agricultural and food products behind an acceleration in income growth from current levels and continued population growth. The macroeconomic setting likely in the 1980's and the cost of committing more land and water resources to use will make the gains in production needed to balance demand dependent on moderate increases in nominal and possible real farm returns. Even with substantial productivity gains, farm prices will have to be more attractive in nominal and possibly even in real terms in the 1980's than in much of the late 1970's to overcome the impact of likely increases in the costs of production and to encourage investment in resource development.

FARMER CHARACTERISTICS

Question: In your analysis of the characteristics of farmers and farmworkers, you found that persons and families receiving farm self-employment income are older than the general population. What has happened to our "young farmer"?

Answer: People receiving self-employment income from farming are older than the general population partly because self employed people are older on average than those working for wages or salary, and partly because a number of retired people retain a financial interest in farms and report such income as self employment, even though they may not have participated in the farming operations.

Since 1970 there has been a considerable growth in the number of younger farmers. In fact there are about 50 percent more farmers under 35 years old today than there were at that time. There has been no shortage of young people entering the business in recent years, but we are well aware that many are having difficulty staying in farming because of high costs and low farm income.

IMPACT OF PROPOSED BUDGET CUTS

Question: If the Economic Research Service were to face an additional 10 percent budget cut in fiscal year 1983, where would you propose to make these cuts?

Answer: ERS has been cutting back on program support for the past two years and is now at a level where further declines would significantly impact in the breadth and scope of the program. Further budget cuts of about 10 percent would require significant program reductions, particularly in the area of cooperative agreements with universities.

The first priority of ERS will be to maintain a solid program of research, analysis and outlook in those areas of broad impact and national scope and importance. Program reductions would occur in those activities of narrow interests, which may be of limited value or benefit to the general public. In general, studies of local and regional focus likely would be phased out. Research, analysis and forecasting related to minor commodities would also be reduced.

Commodities affected may include minor fruits and vegetables, peanuts, tobacco, aquaculture and sheep. International research and analysis would be more limited to countries which are our major trading partners. Some country-specific analysis would be consolidated into larger regions. Less emphasis would be placed on current market intelligence and more emphasis would be on the more basic supply, demand and trade relationships. In natural resources, current research on pest management technology likely would be reduced. Regional studies relating to land and water resources would be reduced, but issues of national scope, particularly soil and water conservation would be expanded. Several rural development projects of local or regional scope would be phased out.

MISSION OF THE ECONOMIC RESEARCH SERVICE

Question: What is the basic mission of the Economic Research Service? Is it a long-term economic research agency or is it a policy analysis group?

Answer: The primary mission of ERS is to provide public and private decisionmakers with timely and reliable economic information related to food, agriculture, natural resources and rural people. In doing so, ERS does both long-term research and policy analysis. The most effective policy analysis is that which is based on a foundation of solid research.

Economic research is conducted to identify and measure the relationships among economic variables which form the basis for monitoring economic activity in the farm and food sectors, for making short-term forecasts and long-term projections in our situation and outlook program and for policy analysis.

ERS-produced economic information is made widely available to producers, marketers, processors and consumers as well as to legislators and other public officials at the federal, state and local levels as a basis for developing and administering public programs. Because of this diverse role, basic research and policy analysis are complementary in the ERS program. One major reason for conducting basic research is to bring the best economic information to bear on current policy issues. Alternatively, the best policy analysis is that which is supported in solid long-term research.

Well over half the Agency's professional staff years are allocated to research while less than a tenth are involved in policy analysis. The remainder work is current intelligence and monitoring activities including economic forecasting.

Question: Should the Department of Agriculture have a separate agency which is responsible for overall economic research? Couldn't an argument be made that the Economic Research Service economists could be placed in existing program agencies and achieve some further savings and increases in efficiency?

Answer: One of the major strengths of the Economic Research Service is the comprehensive program of research, analysis and forecasting which spans the entire food and fiber sector. It is this broad information base which allows us to quickly and effectively conduct research or analyze policies which cross program bounds. Most researchable issues and policy analyses are not easily compartmentalized by program or agency. Coordinating a dairy marketing study, for example, would be very difficult since economists from several program agencies would be involved--perhaps AMS, ASCS, FNS, FAS--and each would have a different perspective of the issue.

Spreading the functions of ERS around to the various program agencies likely would raise costs to the Department and create inefficiencies in economic research since many of the basic information gathering activities which take place in ERS would have to be duplicated in each agency. One example of this redundancy would be the maintenance of a data base from SRS, Census, BLS, and other government agencies. Since research and policy issues will not divide neatly by program agency then each agency would have to maintain some expertise on another agency's program. This redundancy and overlapping would reduce the ability of the Department to supply a coordinated and comprehensive response to an issue and likely would result in more economists and resources devoted to economic research than under the current arrangement.

Another major advantage of a separate research agency, apart from the program agencies, is that results of research and policy analyses are more likely to be viewed by the Secretary and the public as objective and unbiased since neither the agency nor the economists have any vested interest in the outcome as it related to ongoing agency programs.

SOIL AND WATER CONSERVATION

Question: As you know, Dr. Lee, the Department spent more than $835 million in fiscal year 1981 under some 27 different soil and water conservation programs. Has the Economic Research Service attempted to evaluate the effectiveness of these 27 programs in light of the Secretary's strong desire to redirect our soil and water conservation effort towards high soil loss regions?

Answer: ERS has participated in several interagency studies to evaluate Departmental conservation programs. Most notable was the 1979 study "Impact and Capability of Soil and Water Conservation Practices." This study showed that management practices are more cost-effective than engineering practices. It also revealed that user costs and apathy among users are limiting factors to adoption of conservation practices.

At the present time, we are developing conservation investment decision models for actual farm situations in eleven of the most erosive areas of the United States. These models will give us the ability to assess the likely effectiveness of alternative program adjustments designed to target programs toward high soil loss areas. ERS is also engaged in a major USDA interagency research project to establish the long-term relationship between erosion and soil productivity. Findings from this project will provide critical information for conservation planning. This work is the direct result of ERS' effort to estimate erosion-crop yield effects as part of the Resource Conservation Act (RCA) analysis for conservation program planning. The RCA Program Report contains a chapter that summarizes several studies that focus on the effectiveness of present soil and water conservation programs. Most of these studies were done by the program agencies or by GAO.

QUALITY OF ECONOMIC RESEARCH

Question: I have been talking with various people I know who have been in the agricultural economics profession. They tell me that the quality of the Economic Research Service's work has declined in recent years. Would you agree with this assessment? If so, why?

Answer: No, I would not agree with that assessment. In fact I would argue that the quality of ERS products is better than ever. I am aware of the concerns of some economists in the profession. It is important to recognize, however, the difference between the quality of ERS products and the quantity and the focus of the ERS program. It must be recognized that ERS staffing has been declining during a period of time when there has been an explosion in the demands for information and analyses related to public policy issues. Because of this reduction in resources available to us we have not been able to maintain as many economists on basic long-term research topics, which in the past have often been of a fairly narrow scope and often related to local or regional issues. We have been redirecting our limited resources to the highest priority work of national scope in recent years, as we must. Some economists in the profession have been unaware of the constraints on our resources which sometimes means that we are unable to fund or otherwise support research of local interests. Unfortunately this lack of ERS involvement in localized research projects is sometimes mininterpreted as a reduction in the quality of the program.

ECONOMISTS' GRADE STRUCTURE

Question: A major problem that the Economic Research Service has faced over the past several years has been its grade structure. How does an agricultural economist with equivalent education and experience grade out versus, for example, Agricultural Stabilization and Conservation Service or the Foreign Agricultural Service? How many agricultural economists has the Economic Research Service lost to other USDA agencies over the last ten years?

Answer: The grade structure has, in fact, presented us with problems over the past several years. Note that I put this in plural form rather than the singular. On the one hand we, and government economists in general, have been faced with charges of overgrading. On the other hand, we have been charged with not having a grade structure high enough to retain our best and brightest economists. Perhaps there was a time when we had a few too many economists at the higher grades. I do not feel this is the case today, and perhaps we have gone a bit too far in reducing the number of employees at the higher grades. In 1970 we had 10 employees at the supergrade, or what is now the SES level; today we have just 6. We had 62 GS-15's in 1970, now we have just 44. We had 129 GS-14's, now we have just 101. We had 200 GS-13's; now we have just 176. Over this time period our total employment has also declined so that the ratio of GS-13 and above employees to total employees has actually increased, from 35.1 percent to 41.2 percent. But this is rather misleading; our reduction has been largely in support positions made possible by automating many of our clerical operations. Our fundamental responsibilities remain the same but we now have less human expertise to deal with the more complex issues. We hope to increase somewhat our number of higher grade positions, but we will be running counter to overall Administration efforts to reduce grade levels of Federal employees. But as the numbers I have given you show, we have reduced over the past 10 to 12 years the number of people at higher grade levels in response to the same kinds of pressures that exist today. I feel we have gone too far and must reverse the trend if we are to remain a viable organization.

The soon-to-be-issued revised classification standard, plus our hoped for approval by OPM of the use of the research grade evaluation guide for economists, should give us the needed flexibility. But the real issue is program management. Over time we have consolidated divisions and branches. We may now need to create small divisions and branches so that we can have research leaders who can devote more time to research and research leadership, and less time to the more administrative tasks. On the surface this may appear less efficient, but it will, if kept within reasonable limits, be more cost effective.

I really can't answer the question of how an agricultural economist with equivalent education and experience grades out in ASCS or FAS versus ERS. In the Federal service, the grade level is a function of what the position grades out to be, rather than the individual.

We have recently looked at some data on the grade level of economists in other agencies that, on the surface, would not suggest that our grade levels are not particularly out of line. I would like to share these data with you:

	GS-13 and above economists		GS-12 and below economists	
	Number	Percent of total economists	Number	Percent of total economists
USDA				
ERS	289	55	239	45
FAS	46	54	39	46
ASCS	15	71	6	29
FS	31	41	45	59
SCS	10	10	86	90
Commerce				
BEA	97	40	143	60

Please note, however, that ERS managers are classified in the Economist series. Whereas managers in the other agencies in the table generally are not.

We do not have data for the past ten years on number of our economists transferring to other USDA agencies. But from records we have, we know that 62 employees left ERS for higher grades or the promise of higher grades in other Federal agencies since 1977. This is not a particularly large number, but included in this total are some of our better economists. While we have lost some economists to other agencies, we do get some back.

Since our objective is to hire the best agricultural economists produced by the Nation's colleges and universities, we expect to lose some to other employers. We simply can't afford to promote all of them to their maximum level of competence. The real issue is do we have the right mix of grade levels to get our job done as you, the Secretary, and the general public would like. It's my conclusion that we are close to the ideal mix, but are somewhat short at the higher grades.

COMMODITY OUTLOOK AND SITUATION ANALYSIS

Question: Dr. Lee, do you consider commodity outlook and situation analysis a major function of the Department of Agriculture?

Answer: Yes, not only for the benefit of the public, by enhancing the efficiency of markets, but in support of the Secretary's office when analyzing policy issues.

A major reason for a USDA situation and outlook program is to improve the efficiency of markets by informing market participants of the underlying supply and demand conditions impacting on commodity prices. Improving market efficiency benefits both producers and consumers by providing all market participants with accurate price signals so that production can be quickly adjusted to meet demand. Even though the private sector has increasingly become active in disseminating situation and outlook information, the USDA program and resulting information is still used as a basis for judging others. In fact, some private forecasters present their results in relation to USDA forecasts--stating that their assessment is for production or price to be so much above or below the USDA figure. Also, many forecasts which at first glance appear to be private sector forecasts and analysis are merely the USDA assessment repackaged. The ERS situation and outlook program is targeted to wholesale audiences, such as the media, with the expectation that the information will be repackaged and more widely circulated.

Another major reason for a USDA situation and outlook program is to provide market information to small producers and marketers who are unable to purchase the services of the private sector and would therefore be subject to some disadvantage in the market if the small operators were dependent on a few large operators as their buyers and sellers. Freely available public information concerning commodity supply and demand conditions and prospects helps reduce the market power advantage that a few large buyers may hold over many small producers.

FARMERS' FINANCIAL CONDITION

Question: American farmers are having a very difficult time financially. What is the Economic Research Service doing to address the problem farmers face with high debt loads and depressed farm income? Do you have any recommendations to make?

Answer: The Economic Research Service continually monitors the financial health of the farm sector at the aggregate level through work on farm income and balance sheet statistics, which are published annually as Economic Indicators of the Farm Sector. In addition, ERS analyzes the situation and outlook for grain, oilseed, livestock and other commodity markets. These analyses are published periodically and provide farmers with an indication of market supply and demand conditions that can be used in crop and investment decisions.

Considering income from all sources, the farm sector no longer has a problem of chronic low incomes; but it does have a severe problem of instability of cash flow from farm sources. Part of the cash flow problem stems from the interaction of inflation, credit usage, and Federal tax treatment of farm incomes and estates. Other parts of the problem are the economic organization of farms as price-takers in increasingly unstable markets, and the specialization of farms in few commodities.

The critical link in the interaction is inflation. Because of chronic inflation, there has been a tendency to use farm assets as a hedge against further inflation, and as a tax shelter. This has resulted increased debt financing which in periods of low commodity prices has led to cash flow problems. Efforts to combat inflation through tight money and higher interest rates exacerbate the cash flow problem in the short run.

STATISTICAL REPORTING SERVICE

ELIMINATION OF REPORTS

Question: Just yesterday, you announced cutbacks and eliminations of certain crop and livestock estimating programs and reports. Would you provide those changes for the record please?

Answer: Yes Sir, a copy is submitted for the record.

NEWS

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USDA'S STATISTICAL REPORTING SERVICE CHANGES CROP, LIVESTOCK ESTIMATING PROGRAM

WASHINGTON, March 10--Effective immediately, the U.S. Department of Agriculture's Statistical Reporting Service will eliminate, cut back or otherwise alter selected portions of its crop and livestock estimating programs, according to SRS Administrator William E. Kibler.

Kibler said the changes are necessary to stay within fiscal 1982 funding levels.

He said the changes follow an extensive, critical review of the entire estimating program. "We believe we will be able to redirect available resources toward maintaining timely and reliable data series judged to be the most important in monitoring changes in the agricultural sector. We feel we explored all possible avenues to minimize the impact on the total agricultural community," Kibler said.

He said USDA will work with commodity groups, local organizations and state agencies to reestablish programs being eliminated or curtailed if funds for data collection, summarization and publication can be provided by these groups. SRS will continue to publish over 300 reports annually, Kibler said.

The following 26 reports will be eliminated:

— Alfalfa Seed (annual forecasts of acreage, yield and production);

— Butter and American Cheese Production (weekly reports issued by the SRS office in Madison, Wis.);

— Catfish (monthly reports of catfish processed and the semi-annual reports of producer inventories, sales and value);

— Commerical Apples by Varieties (annual estimate of production);

— Commercial Fertilizers (monthly reports of consumption, and the annual report of consumption by class);

— Field Crops: Production, Disposition and Value (annual release presenting the previous year's data);

— Field Seed Stocks (annual estimate of stocks held by dealers);

— Floriculture Crops (annual report of production and sales and intentions);

— Gum Naval Stores (monthly reports of production);

— Honey (annual estimates of the number of colonies; honey and beeswax production, prices, and value; and honey stocks);

— Lamb Crop and Wool (annual estimate of next lamb crop, sheep shorn and wool production issued in July);

— Maple Sirup (annual estimates of production, price, value and disposition);

— Mink (annual estimates of mink pelts produced, females bred, prices and value);

— Onion Stocks (annual report of stocks of dry onions);

— Producer-Owned Grain Stocks (annual estimates of wheat and soybean stocks off farms owned by producers);

— Popcorn (semi-annual reports of acreage, yield, production and prices);

— Red Clover Seed (annual forecast of acreage for harvest, yield and production);

— Seed Crops (both preliminary and annual summaries of acreage, production, yield, price and value of 14 field seeds);

— Sheep and Lambs on Feed (three reports estimating number on feed in seven major states, including the March estimate of the early lamb crop in three states);

— Sugar Distribution (weekly report of distribution and stocks);

— Sugar Market Statistics (monthly report of deliveries, inventories production and prices);

— Tall Fescue (Oregon and Southern States) (annual forecast of acreage, yield and production);

— Timothy (annual report of acreage, yield, and production);

— Trout (annual report of producer sales and value);

— Vegetable Seeds (annual forecast of acreage and production prospects); and

— Vegetable Seed Stocks (annual summary of stocks held by dealers).

The following data series will be eliminated from ongoing reports:

— separate utilization estimates of table and hatching eggs; pullorum-typhoid testings for broiler-type chicks, egg-type chicks and turkeys from the monthly Eggs, Chickens, and Turkeys report;

— forecast of winter wheat yield and production for the following year from the December Small Grains report.

— forecasts of yield and production for current crops of corn, durum, and other spring wheat from the July Crop Production report;

— estimates of dry edible pea acreage, yield, production, disposition, and value from the Crop Production, Prospective Plantings and Acreage reports;

— estimates of blueberries and bushberries from the Crop Production and Noncitrus Fruits and Nuts reports;

— pickle stocks data from the November Vegetables report;

— estimates of seeded winter wheat available for grazing in Kansas, Texas and Oklahoma from the November and December Crop Production reports;

— data on dairy feed ingredients from the Milk Production report;

— prices of manufacturing grade milk for specified uses and milkfat test data from the Dairy Products reports; and

— acreage, yield, production, price and value estimates for these fresh market vegetables: artichokes, asparagus, snap beans, Brussels sprouts, cabbage, cantaloup, cucumbers, eggplant, escarole/endive, garlic, green peppers, watermelons, and spinach. Estimates will be discontinued for these processing vegetables: lima beans, beets, cabbage for kraut, cucumbers for pickles, spinach, and asparagus. All these estimates will be eliminated from the Vegetables reports.

SRS will reduce the number of state estimates included in these reports:

— Cattle (The July issue will carry inventory and expected calf crop estimates at the national level only and not by separate states.)

-- Cattle on Feed (The quarterly reports will provide data of the number on feed, placements and marketings for only 13 principal states rather than 23.)

-- Hogs and Pigs (The March and September estimates of inventory, pig crop and breeding intentions will be cut from 14 states to 10. The June estimates will be reduced from all major states to only 10 and a national estimate.

SRS will cut back on the frequency it issues the following reports:

— Cold Storage (From monthly to quarterly for end-of-month holdings in March, June, September and December.)

-- Dairy Products (From monthly to quarterly for January-March, April-June, July-September and October-December.)

-- Eggs, Chickens, and Turkeys (From monthly to quarterly for December-February, March-May, June-August and September-November for estimates of layer numbers and egg production. Estimates of chicks and poults hatched, eggs in incubators and pullet chicks for hatchery supply flocks will be issued monthly.)

— Livestock Slaughter (From monthly to quarterly for January-March, April-June, July-September and October-December.

— Milk Production (From monthly to reports in April, July, October and January covering the periods January-March, April-June, July-September and October-December.)

— Peanut Stocks and Processing (From monthly to reports only in February and August.)

SRS will reduce the frequency it estimates the following commodities:

— Cranberries will be dropped from the October and November Crop Production reports and estimated in August and January.

-- Peppermint and spearmint for oil reported in the June, August and September Crop Production reports will be available only in the January release.

— Tobacco by seven classes and 21 types currently reported in the May, July, September, October, November, and December issues of Crop Production will be available only in the August and January reports.

For additional information concerning these program alterations, please contact: Don Barrowman, Director, SRS estimates division, (202) 447-3895; Robert Schulte, Chief, SRS crops branch, (202) 447-2127; or Robert Freie, Chief, SRS livestock branch, (202) 447-6146.

Question: I understand these changes are effective for the rest of fiscal year 1982 and beyond.

Answer: Yes Sir, these program adjustments as announced are effective immediately and are expected to continue as permanent changes.

Question: What would it cost to fund all services cut for fiscal year 1983?

Answer: It is expected that the cost to fund the activities contained in the March 10, 1982, announcement would total $3 million.

Question: Please provide a cost projection breakout for each program or report as if it were to be funded in fiscal year 1983.

Answer: A breakdown follows:

SRS Program Adjustments Announced March 10, 1982

	FY'82 Savings	Total Costs
	$000	
July 1 Corn and Spring Wheat, and Dec. 1 Winter Wheat Forecasts	95	125
Full March, June, and September Hogs and Pigs Report	200	250
Annual Bees, Honey and Beeswax Statistics	40	50
Aquaculture Statistics Series	200	300
Annual Mink Statistics	50	60
Floriculture Statistics	150	200
Grass Seed Statistics	170	200
Popcorn Production Statistics	20	30
July 1 Cattle Inventory	260	315
Quarterly Cattle on Feed--23 to 13 States	125	165
Monthly to Quarterly Slaughter	30	45
Monthly to Quarterly Cold Storage	30	45
Monthly to Quarterly Milk Production	85	160
Monthly to Quarterly Dairy Products	35	60
Monthly to Quarterly Eggs, Chickens, and Turkeys	80	165
Elimination to All Sugar Statistics	65	95
Modification of Vegetable Statistics	125	160
Reduction in Detail for Tobacco Statistics	76	106
Eliminate Monthly Fertilizer Statistics.	45	75
Reduction in Sheep Statistics Series	135	290
Curtailment of Peanut Stocks, Cranberries, Mint, Apple Varieties, Wheat and Soybean Stocks, Wheat Pasture, Gum Naval Stores, Maple Sirup, etc.	85	135
TOTAL	2,101	3,031

ELIMINATION OF PUBLICATIONS

Question: In the case of those publications which are being eliminated, is the information available through other Government sources?

Answer: The amount of information still available from other sources varies from none to a substantial portion depending on the commodity involved. Many of the announced adjustments reduce the amount of detail or frequency of data available for a commodity, but retain a core program of basic data. There are some specialty commodities, however, that have no Government data retained and have little, if any, outside data available. These commodities are not involved in any Government programs or marketing orders.

Question: In terms of those publications which are being eliminated, would the Statistical Reporting Service consider offering a cost-share arrangement with the private sector in order to keep publicizing the information?

Answer: Yes Sir, SRS is receptive to funding proposals from any commodity group or State to reinstate data collection and publication activities through the procedures of the Crop Reporting Board. The funding of any of such agreements would be handled through a trust fund arrangement.

STATISTICAL SERVICES

Question: Would you consider holding off on eliminating the 26 statistical series until the industry has a chance to pick up the cost?

Answer: No. The suggestion of holding off on implementing the announced program adjustments until the industry can develop funding proposals would be preferred by SRS. However, the need to bring expenditures in line with available resources is very urgent, and it would be impossible to delay the action and stay within the authorized appropriation levels.

DATA PROVIDED BY GOVERNMENT

Question: Mr. Kibler, in your judgment, has the Administration adopted a policy or basic philosophy towards handling statistical data? In particular, has there been a clearly defined policy on what type of data should be provided by the Government versus that which should be provided by the private sector?

Answer: The Administration is moving toward adoption of a policy to transfer the total costs to the private sector of the development of data for commodities not involved in Government programs, marketing orders, or vital to the emergency preparedness activities of the Government.

QUALITY OF USDA DATA

Question: Many farmers have expressed concern to me about the quality of USDA data.

Answer: Most USDA data are the product of sample surveys--often relying upon very small sample sizes. These surveys are subject to sampling variability that is common to all sample surveys. Sampling variability is present because crop acreages or livestock numbers are obtained from only a sample of producers rather than from all producers. The sampling process provided a measure of the sampling variability which for major items at the U.S. level is between 1 and 2 percent and is usually less than 5 percent for many minor items.

Another measure used to evaluate the quality of many USDA estimates is the percentage difference over time between the first forecast for an item and the final estimate. This measure is known as the Root Mean Square Error and is included in many major releases to provide data users with a measure of the historic quality of the data. The root mean square errors for crop production forecasts included in the August 1 crop report range between 1.9 and 8.7 percent. As the crop season progresses, the ability to forecast improves with most deviations ranging from 1.3 to 5.4 percent by October 1. The reason early season crop forecasts have to be updated is to account for the changes in weather and growing conditions that occur. The updated forecasts are to account for changes that have occured and are not related to the quality of the previous report.

ACCURACY OF DATA

Question: What are you doing to assure the accuracy of the data you report?

Answer: Quality control measures are built into the entire data collection effort. This process begins with the development of the sample frames in a manner to assure that they contain no duplication and that there will be no biases in the sample selection process. The design and development of questionnaires is a continuing effort to make sure that the questions are clear and concise. An ongoing survey training program assures that everyone from survey statisticians to the field interviewers thoroughly understand the questionnaires and the data collection process. Completed questionnaires and forms are edited for consistency and reasonableness both by statisticians as well as by sophisticated computer edits. The final survey indications are reviewed carefully for reasonableness and errors that could have occured. Other sources of information are also used to evaluate the accuracy of livestock inventory reports. Grain stocks data as well as information about exports and crushings are used to evaluate the accuracy of crop production forecasts and estimates.

SURVEYS AND QUESTIONNAIRES

At the hearing last year, we discussed at some length, the type and number of surveys conducted by the Statistical Reporting Service. We also discussed the level of response rate and complaints of farmers being plagued or inundated with surveys and questionnaires. You indicated there were a number of problems along this line.

Question: Have there been any improvements in the level of response to surveys?

Answer: The level of non-response to SRS surveys had leveled off. As the Agency has developed and expanded the use of its list sample frame system, the State Statistical Offices have more control over the number of times each respondent is contacted. Research is underway to improve sampling procedures to select farmers with probabilities proportionate to their reporting burden.

Question: If individuals are now required to subscribe to reports, or certain publications, do you expect further declines in the rate of participation in your surveys, etc?

Answer: Individuals who report to surveys will not be charged for the publications. There may be an indirect improvement in the survey participation once producers realize they are receiving something free and other people have to pay.

Question: Are these types of reports or surveys that you are proposing for elimination or modification?

Answer: Yes. The press release earlier included in the record summarizes the reports and surveys that are being eliminated or modified.

LANDSAT

You mentioned you are requesting $300,000 for acquisition of LANDSAT data. Yet, you indicate in the Explanatory Notes that LANDSAT data is of poor quality.

Question: Is LANDSAT data reliable?

Answer: Geometric distortion problems which were evident in much of the 1980 LANDSAT data were corrected by NASA-Goddard Space Flight Center by late 1980. These geometric problems did not reoccur in 1981 and they were not present in the 1972-79 period.

Question: Could you make your estimates without LANDSAT?

Answer: Yes, SRS crop acreage estimates are currently made using data collected from interviews of farm operators for randomly selected area segments (June Enumerative Survey) and sampling of lists of farm operators (June Acreage Survey and Acreage and Production Surveys). LANDSAT does provide an opportunity to improve the precision of SRS estimates with no increase in reporting burden for farmers and we believe within the next year at lower costs than would be required for simply expanding the sample size for the June Enumerative Survey.

Question: What additional costs, if any, would be entailed without LANDSAT?

Answer: The use of LANDSAT data along with June Enumerative Survey (JES) data collected for randomly selected area segments results in an improved estimate of major crop acreage. The approach is not a possible replacement for the JES since that survey provides many types of data (livestock data, farm labor, economic data, and crop utilization data) which can not be measured by LANDSAT and the LANDSAT acreage approach depends upon data such as the JES for valid training and expansion.

Use of LANDSAT data versus additional field visits in order to improve major crop estimates would normally show the LANDSAT approach to be cost effective. From 1975-81, 9 out of 13 SRS LANDSAT research projects indicated cost effective improvements in precision over the choice of more ground collected data. It is anticipated that the new sensor, the Thematic Mapper, on LANDSAT D will provide even more cost effective improvements.

Question: When is the next LANDSAT satellite to be launched?

Answer: According to NASA, LANDSAT D is expected to be launched on or before July 31, 1982.

Question: Is it expected that the data from that will be more reliable? Why?

Answer: There will be two major multispectral sensors aboard LANDSAT D. The multispectral scanner (MSS) will provide data similar to LANDSAT's I, II, and III with 80 meter resolution. The new sensor, called the Thematic Mapper (TM) will provide data with 30 meter resolution. Preliminary research studies indicate that the information content of the TM will be double or triple that of the MSS for crop area estimation. Several parameters of the LANDSAT D instrument such as altitude will be different and new ground data handling procedures and equipment will be necessary. It is expected that the new procedures will be more efficient and reliable than the current system used for LANDSAT's II and III.

WORLD AGRICULTURAL OUTLOOK BOARD

AGENCY ROLES IN COMMODITY ANALYSIS

Question: The World Agricultural Outlook Board contains a number of commodity analysts as does the Economic Research Service. What are the differences in the roles for the commodity analysts in the World Agricultural Outlook Board versus the Economic Research Service?

Answer: Commodity analysts in the World Agricultural Outlook Board serve as the focal point in the Department for the coordination and review for analytical content, objectivity, and consistency of all domestic and international commodity data and analyses developed for outlook and situation reports. These reports include material developed by the Economic Research Service and the Foreign Agricultural Service. The Department's official commodity data and outlook-related analyses are generated by interagency commodity estimates committees, under the leadership of commodity analysts from the Board. With limited independent analytical capacity, we have to call on the capability of other agencies to get a full spectrum of perspectives in our efforts to improve the accuracy and objectivity of USDA's economic intelligence system. The Economic Research Service furnishes members for commodity estimates committees, and, in this role, they contribute valuable data and analyses related both to the domestic commodity outlook and to prospects for international trade through detailed foreign country and regional analyses.

Question: Do you see any duplication between the World Agricultural Outlook Board function and those of the Economic Research Service?

Answer: We do not see any duplication because our missions are different. The Board has responsibilities for improving the accuracy, objectivity, consistency and timeliness of the Department's entire economic information system. The Board, in carrying out this mission, works with all agencies in the Department that are involved in situation and outlook activities. On the other hand, the Economic Research Service has primary responsibility for U.S. commodity analyses, and responsibilities, along with the Foreign Agricultural Service, for international country and regional analyses. The Economic Research Service publishes a number of detailed commodity situation and outlook reports, while the Board is only directly responsible for the World Agricultural Supply and Demand Estimates report, which is a product of interagency commodity analyses. Thus, the Board's primary function is one of coordination and review. One of our jobs, in fact, is to monitor activities of agencies within the Department and make recommendations for elimination of any duplicative efforts.

REMOTE SENSING DATA

Question: Is the remote sensing data that is used to monitor and assess crop conditions in foreign areas reliable in so far as the Board is concerned?

Answer: Remotely sensed data for foreign crop areas are available from two sources--operational weather satellites managed by the National Oceanic and Atmospheric Administration, and from LANDSAT, the experimental civil land remote sensing system operated by the National Aeronautics and Space Administration.

Remotely sensed data from the weather satellites are received directly from NOAA by the World Agricultural Outlook Board's Joint Agricultural Weather Facility in the form of imagery. These images, which depict cloud cover over large areas of the earth's surface, facilitate analysis of movements of major air masses and are a valuable supplement to weather data collected on the ground. Weather satellite imagery is also a primary source of information about current weather in those areas where ground stations are sparse or nonexistent. The polar-orbiting satellites provide the best information in data deficient areas. Weather satellite information is received daily by the World Board and, coupled with other meteorological data, cropping areas and plant/soil profiles, has proved to be extremely useful and qualitatively reliable as a basis for quantitative assessments.

Responsibility for management of the LANDSAT system will be transferred from NASA to NOAA with the launch of LANDSAT D in July 1982. LANDSAT data are not received directly by the World Board, but are integrated with information from other sources by the Foreign Agricultural Service in the preparation of foreign crop condition assessments and estimates. LANDSAT data are an especially useful source of information for those countries where information access is denied. While the assessment technology remains in a research and development mode, it shows future promise in increasing the reliability of estimates in selected areas of the world.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

PROSPECTIVE PLANTINGS FOR BARLEY

Previous to 1981 you did two reports on Prospective Plantings for barley -- one in January and one in April. This was a satisfactory method, as it gave the southern states the information they needed in January and the northern states the information they needed in April.

Last year you split the report, doing the southern one early and the survey of the northern states in March. I understand that the industry objected to have this survey split, and as a result this year you did a survey of all the states in February. While this might not cause too much of a hardship on the southern states, it is far to early for an accurate report in states like North Dakota.

Question: I realize this is a cost saving measure. How much does this survey cost? In other words, how much was saved by going to one report instead of two?

Answer: Approximately $225,000 per year will be saved by the elimination of one of the planting intentions reports. Prior to 1971 the Statistical Reporting Service (SRS) of USDA conducted only one Prospective Plantings survey each year. The survey date was March 1 and the results were released in mid-March. In 1971, a January Prospective Plantings survey was carried out to assist the Department in making policy decisions relative to 1971 crops. The January 1971 Prospective Plantings survey was planned as a "one-time" survey but was continued in later years and the March 1 survey was shifted to April 1.

In meetings with key data users around the country on ways costs could be reduced, many suggested that one of the Prospective Plantings reports be eliminated. The split survey (January and March) was tested in 1981 and data users contended it was not as meaningful since it did not give a clear picture of planting intentions for the entire country at a single point in time. The February 1 date appears to be the date that is more relative to both the southern and northern States. Very little planting of major field crops gets underway in southern areas before March 1, and northern farmers are more firm on their intended acreages on February 1 than they are on January 1.

Question: Has the industry expressed any interest in going back to two reports, and if so, have they expressed any interest in helping to pay for two reports?

Answer: The industry has not expressed a large degree of interest in reinstituting the two reports. No offers of funding have been presented to SRS on industry support of the reports.

Question: If you receive additional funding, what priority would be placed on going back to two reports?

Answer: The SRS plan would be to first restore the surveys reduced as shown in the March 10, 1982, press release before the addition of a second acreage intentions report.

USDA'S ROLE IN WATER MANAGEMENT

Question: I have always been interested in the impact of the weather on agricultural output. The information gathered by the USDA and the National Oceanic and Atmospheric Administration analyzing the effects of global weather events is very significant to the world agricultural community.

NOAA is also involved in a state/Federal cooperative program for weather modification in my home state of North Dakota. These cloud seeding programs were designed to address the national need of water for agriculture and industrial purposes. What role do you see the USDA taking in the overall water management programs?

Answer: As a major user of water for irrigation and other purposes, USDA is very much aware of the need for realistic water management programs, based on scientific principles and supported by adequate data. The Soil Conservation Service of USDA is actively engaged in gathering data on the snowpack in western States. These data are then used to assess the amount of water available for irrigation in various river basins. SCS, through its soil conservation programs, and the Forest Service, through proper forest management, strive to maintain steady flows of good quality water. Agricultural research can help to create a better understanding of fundamental plant/water relationships. Obtaining data for water management is a cooperative effort: The National Oceanic and Atmosphic Administration has traditionally been the leader in collection and transmission of daily rainfall and temperature measurements; USDA has been a user agency and a cooperator, enhancing the NOAA data network in areas where more detailed information is needed for agricultural uses. NOAA has led the effort to provide quantification of drought severity on a real time basis using the Palmer methods--named after Wayne C. Palmer, a former NOAA employee who did the developmental work--to produce the Palmer Drought Index and the Crop Moisture Index. USDA uses these indices and other information provided by its internal agencies, ASCS and SCS, as bases for drought-related crop-loss payments.

With substantial cutbacks in the special user service programs by NOAA, USDA's needs cannot be met. The Department will likely be forced to take a more active role in generation, processing, interpretation and transmission of information required to make timely and cost effective water management decisions related to the U.S. Agricultural Production System.

FARMERS' NEWSLETTERS

You are proposing to drop the Farmers' Newsletter program because the information can be obtained from the media farm magazines, other private sources, and the Cooperative Extension Service.

Question: Realistically is this information readily available for our farmers or would it be necessary for them to dig it out by going to all of these sources?

Answer: There's no doubt that the Farmers' Newsletters served a valuable role in providing producers with objective information about current and potential situations to assist them in their producing and marketing plans. However, much of this information is also easily at hand through local government and university sources, the Extension Service, and commercial outlets. These latter systems could well afford the farmer a wide variety of data and interpretations at a level closer to his market.

Question: Would there be any way you could continue to publish it and sell it on a subscription basis?

Answer: A subcription fee would not cover all costs associated with producing the Newsletter, but would only recover postage and handling of the reports. The non-recoverable cost would still be substantial. For that reason, the program was eliminated from our FY 83 budget. As an alternate means of providing the Newsletters to farmers, the Government Printing Office is willing to handle the project at an annual cost to the subscriber of about $6 for each 5-letter series. However, we would still need funds to generate the newsletter subject matter.

Question: Has much interest been shown in keeping this publication going, or will this come as a surprise to our farmers?

Answer: Recently, we sent purge notices to 50,000 individuals receiving free copies of the Newsletters. More than 20,000 responded, using their own postage, that they wanted to continue receiving the Newsletters. However, when we sampled 1,000 on the list about their willingness to pay $6 annually, fewer than 100 of the 400 responding were willing.

OFFICE OF THE SECRETARY, DEPARTMENTAL ADMINISTRATION

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

OFFICE OF THE GENERAL COUNSEL

STATEMENTS OF:

- JOHN E. SCHROTE, DEPUTY ASSISTANT SECRETARY FOR ADMINISTRATION
- CLAUDE W. GIFFORD, ACTING ASSISTANT SECRETARY, OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS
- MICHAEL J. MASTERSON, DIRECTOR OF CONGRESSIONAL AFFAIRS, OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS
- LEORA G. DAY, DIRECTOR OF INTERGOVERNMENTAL AFFAIRS, OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS
- A. JAMES BARNES, GENERAL COUNSEL, OFFICE OF THE GENERAL COUNSEL

ACCOMPANIED BY:

- JEANNE M. STANEK, BUDGET OFFICER, OFFICE OF FINANCE AND MANAGEMENT
- ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

FUNCTIONS OF OFFICES

Senator COCHRAN. The second panel this morning consists of representatives on behalf of the Office of the Secretary, Departmental Administration, the Office of Governmental and Public Affairs, and the Office of the General Counsel.

The appropriations for the Office of the Secretary and for Departmental Administration support the basic coordination of the Department's activities and provide staff support to top policy officials.

The Office of Governmental and Public Affairs serves as a resource for, and liaison with, Congress, other segments of the executive branch, and the public.

The Office of the General Counsel serves as the Department's inhouse law firm. It provides essential legal advice, services, and planning for the Department's numerous programs.

Together, these offices constitute the core of the Department's staff which provide general direction and basic services for the Department.

INTRODUCTION OF WITNESSES

I would like to welcome as witnesses this morning Mr. John E. Schrote, Deputy Assistant Secretary for Administration, who will speak for the Office of the Secretary and Departmental Administration; Mr. Claude W. Gifford, Acting Assistant Secretary, Office of Governmental Affairs; Mr. Mike Masterson, Director of Congressional Affairs; Mrs. Leora G. Day, Director of Intergovernmental Affairs; Mr. Jim Barnes, General Counsel; Ms. Jeanne M. Stanek, Budget Officer for the Office of Finance and Management; and Bob Sherman, the ever-present departmental Budget Officer for the Department. Without him we couldn't function.

PREPARED STATEMENTS AND BIOGRAPHIES

Welcome to the committee. We do have copies of your statements and biographies. We will place those in the record at this time.

[The statements and biographies follow:]

Office of the Secretary

Departmental Administration

PREPARED STATEMENT OF JOHN E. SCHROTE
DEPUTY ASSISTANT SECRETARY

Mr. Chairman, I am pleased to be here today to discuss with you and the members of the Subcommittee the fiscal year 1983 budget requests for the Office of the Secretary and Departmental Administration including the centralized services which are financed by the agencies through the Department's Working Capital Fund.

OFFICE OF THE SECRETARY

The Office of the Secretary appropriation provides funding for the Immediate Office of the Secretary, the Deputy Secretary, the Under Secretaries, the Assistant Secretaries, the Administrative Law Judges, and the Judicial Officer.

The fiscal year 1983 budget request for this Office is $5,406,000, an increase of $691,000 over the current estimate for fiscal year 1982. Specifically, this increase consists of $341,000 for pay cost increases which are absorbed in FY 1982 and $350,000 for non-discretionary operating cost increases. GSA space costs are increasing by $310,000. The additional $40,000 will be used to offset increased costs for supplies, and equipment.

DEPARTMENTAL ADMINISTRATION

The fiscal year 1983 budget request for Departmental Administration as a whole is $13,647,000, a reduction of $821,000 below the current estimate for 1982.

As you know, the Departmental Administration appropriation provides funding for the Administrative Staff Offices under my jurisdiction as well as the Office of Budget and Program Analysis and the Office of Energy. Stephen Dewhurst and Earle Gavett are here to answer any questions you may have concerning these two agencies.

OFFICE OF BUDGET AND PROGRAM ANALYSIS

The fiscal year 1983 budget request for the Office of Budget and Program Analysis is $3,781,000, an increase of $146,000 over the fiscal year 1982 level. This increase is for pay costs absorbed in fiscal year 1982 but which are needed to carry out the program in fiscal year 1983.

OFFICE OF ENERGY

The increase of $12,000 for the Office of Energy is also for pay cost increases absorbed in fiscal year 1982. The total requested for fiscal year 1983 is $202,000.

ADMINISTRATIVE STAFF OFFICES

The budget request for the offices under my jurisdication is $9,664,000, a net reduction of $979,000 consisting of an increase of $633,000 for pay cost increases absorbed in fiscal year 1982, but needed to carry out the program in fiscal year 1983 and a general program reduction of $1,612,000 which will be accomplished as a result of a reorganization of several staff offices.

REORGANIZATION

I would like to talk briefly about the reorganization of the Administrative Staff Offices which was announced on January 12th of this year.

The purpose of the reorganization is to strengthen program effectiveness and operational efficiency and to establish a more manageable set of offices with greater delegated authority to directors of major staff programs. Accordingly, the Office of Operations and Finance has been separated into the Office of Operations, Finance and Management, Administrative Systems, and Information Resources Management. Each is headed by a Director reporting to me. The functions performed by the Office of Safety and Health Management have been transferred to the Office of Finance and Management. Certain incidental functions have been transferred from the Office of Small and Disadvantaged Business Utilization to the Office of Finance and Management. The EEO complaint and appeal functions in the Office of Equal Opportunity have been moved to the Office of Personnel. We expect to rename the Office of Equal Opportunity.

We are in the process of implementing this reorganization and expect completion by May 12th. I am confident that this will result in a "lean" organization. By reducing managerial overhead as well as streamlining duplications and overlap of functions we will meet the $1.6 million reduction.

WORKING CAPTIAL FUND

The Working Capital Fund was established in 1944 by the Agricultural Appropriations Act. The act authorizes the Secretary, with the approval of OMB, to centralize certain functions and finance them through the fund whenever such functions can be performed more advantageously as central services. Some examples of these services are central payroll, personnel and accounting, voucher payments, operation of the Department's computer centers, supply, duplication, and mail and messenger services.

The obligation estimate for fiscal year 1983 is $89,874,000, a net increase of $3,451,000 over the current estimate for fiscal year 1982. The net increase consists of an increase of $714,000 for inflationary increases in the areas of Supply and Central Services and Motion Pictures, Photo and Visual Services; an increase of $3,644,000 for the National Finance Center for increased workload demands and increased operating costs; a decrease of $780,000 for Reproduction Services resulting from decreased demand in the Printing Plant and increased efficiencies in Copier Service and the Photocomposition Unit; and a decrease of $127,000 for ADP systems resulting from increased operational efficiences combined with better equipment utilization.

This submission reflects the budgetary levels for FY 1982 and FY 1983 recommended by an Agency User Task Force. This Task Force, composed of high level managers from several Working Capital Fund user agencies, established operating levels for each centrally operated activity. These operative levels are intended to meet agency workload requests at lower unit costs.

Mr. Chairman, that concludes my statement. I will be happy to answer any questions you may have at this time.

Biographical Sketches

JOHN E. SCHROTE

Mr. John E. Schrote, 45, was appointed as Deputy Assistant Secretary for Administration on July 6, 1981, by Secretary John R. Block. In this position he provides Departmental leadership in the area of administrative management and exercises general direction over seven staff offices. The offices are, the Office of Operations and Finance, the Office of Equal Opportunity, the Office of Safety and Health Management, the Office of Personnel, the Office of Small and Disadvantaged Business Utilization, the Office of Administrative Law Judge and the Board of Contract Appeals.

Since January 1979 Mr. Schrote was the Administrative Assistant to Congressman F. James Sensenbrenner, Jr. For two years prior to that, he was on the field staff of the National Republican Congressional Committee. From 1971 to 1976 he served in the Nixon/Ford Administration, including three years as Special Assistant to the Secretary of Agriculture.

John Schrote holds a Bachelor's degree in Agriculture from the Ohio State University, and a Master of Business Administration from Xavier University in Cincinnati, Ohio.

Mr. Schrote was born in Findlay, Ohio, is married to Rachel Daly of Mt. Vernon, Ohio. They have a son and a daughter, and reside in Alexandria, Virginia.

JOHN E. CARSON

John E. Carson was born February 21, 1937, in Bryn Mawr, Pennsylvania. He was awarded a bachelor's degree in political science from Stetson University in Deland, Florida, and a master's degree in business administration from Tulane University in New Orleans, Louisiana. Mr. Carson received a graduate fellowship from the Southern Regional Training Program in public administration. This included graduate education in public administration at the Universities of Alabama, Tennessee, and Kentucky, He was awarded a certificate in public administration from these three universities and the Oak Ridge Institute of Nuclear Studies, Oak Ridge, Tennessee, where he completed a management internship. He pursued additional pre-doctoral education in management at American University, Washington, D.C.

He was employed by the Commonwealth of Kentucky as a Personnel

Officer before coming to the U.S. Department of Agriculture (USDA) in 1960. With the Agricultural Research Service, he served as a Personnel Specialist, Program Analyst, Chief of the Budget Development Branch, and Director of the Management Services Division of Regulatory and Control. He became Deputy Administrator for Administrative Management of the Animal and Plant Health Service (APHS) in 1971. When the Meat and Poultry Inspection Program was merged with APHS in 1972, he was named Deputy Administrator for Management, Animal and Plant Health Inspection Service (APHIS).

In 1974, he received the Department's Superior Service Award as leader of the APHIS Administrative Management Support Team. He directed the administrative efforts that established the Food Safety and Quality Service (FSQS) in 1977 and the Office of Operations and Finance (O&F) in 1978. He served as Acting Director, O&F, in 1978 and 1979. He was the Department's Project Manager in the successful implementation of the Civil Service Reform Act during 1979 and 1980. During 1981, he directed a Congressionally mandated evaluation of personnel management at the Immigration and Naturalization Service, U.S. Department of Justice, for the President's Management Improvement Council.

Recently, he served as the key consultant to the Deputy Assistant Secretary for Administration on the reorganization of the USDA Staff Offices. Currently, he is the Acting Director, Office of Finance and Management.

His executive leadership was recognized by performance awards in 1975, 1976, 1977, 1979, and 1981.

DEAN K. CROWTHER

Mr. Crowther is the Acting Director of the Office of Adminstrative Systems which was established on January 12, 1982. This agency is responsible for agency relations in administrative systems coordination and for operating the National Finance Center. Prior to being named Acting Director of the Office of Administrative Systems, he was Director of the Office of Operations and Finance with responsibility for establishment of Departmental objectives, policies and programs for the administration of USDA accounting and financial affairs; administrative services; data processing and information systems; and the provision of budget, fiscal and administrative support services for the Office of the Secretary, Departmental Staff Offices and the Office of the General Counsel.

Mr. Crowther came to Agriculture in March 1979 from the General Accounting Office, where he was Deputy Director, Program Analysis Division. He is a CPA and holds a Masters Degree in Accounting.

He has over 20 years of Government experience with GAO in management, auditing, evaluation, accounting, finance, ADP, data base management systems and many related management activities. Prior to his experience at GAO, Mr. Crowther worked with Authur Anderson and Co., the Marriott Corporation, and Evelyn Wood Reading Dynamics, where he was Vice President and Treasurer.

Mr. Crowther is married to Helen L. Fisher Crowther. They have five children and reside in Vienna, Virginia. He has many outside interests and is an active member of the LDS Church.

Earle E. Gavett

Mr. Gavett is a native of Maine and was educated at the University of Maine with a B.S. in agricultural education and a M.S. in agricultural economics.

He joined the Economic Research Service (ERS) of the Department of Agriculture (USDA) in 1956 specializing in farm labor and mechanization research. He mounted a nationwide survey of fuel use by farmers in 1970. In 1973, during the Arab oil embargo, Mr. Gavett was detailed to the President's National Energy Emergency Planning Group where he assisted in the development of energy conservation programs and mandatory petroleum allocation regulations. In 1974, Mr. Gavett returned to the Economic Research Service, USDA, as Coordinator of Energy Related Research and Leader of the ERS Energy Conservation Project.

In that role, he has participated in National Conferences on Agriculture and Energy Use and interagency task forces on energy matters. He was a member of the Agricultural Research Policy Advisory Committee's National Planning Committee Task Force on Agricultural Energy Research and Development.

From May 1978 to August 1980 he was a Senior Policy Analyst in the Office of Energy, Office of the Secretary, USDA. In August 1980, the Secretary reorganized energy activities within the Department delegating energy policy functions to the Office of Budget and Program Analysis (OBPA). Mr. Gavett served as Chief of the Energy Staff, OBPA. In December 1981 Secretary Block reestablished the Office of Energy and named Mr. Gavett as Acting Director.

OFFICE OF GOVERNMENTAL & PUBLIC AFFAIRS

PREPARED STATEMENT OF CLAUDE W. GIFFORD
ACTING ASSISTANT SECRETARY

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to present the fiscal year 1983 budget request for the Public Affairs office of the Office of Governmental and Public Affairs. The 1983 budget for Congressional Affairs and Intergovernmental Affairs will be presented by their respective directors, Mike Masterson and Leora Day.

As you know, the Public Affairs office is the central USDA organization responsible for coordinating the Department's public information activities. It's major objective is to provide information to rural and urban citizens, those helping to strengthen agriculture and enhance its role in providing adequate food and fiber for a strong and healthy nation. This is accomplished through the use of news releases, radio and television features and programs, publications, articles, special reports, newsletters, and press conferences.

Budget Request

The budget request for fiscal year 1983 is for $6,918,000. This represents a net decrease of $976,000, or a 12 percent reduction from fiscal year 1982.

The request includes $185,000 to restore pay cost absorbed in fiscal year 1982, which is a common item requiring no further explanation, and a decrease of $1,161,000 in keeping with the President's Economic Recovery Plan to reduce federal government spending.

With the critical need to reduce Government spending, our management procedures have been strengthened to enable the Office of Governmental and Public Affairs and the agencies within the Department to reduce spending on publications and audiovisuals. Each publication and audiovisual product is being scrutinized for need, audience, graphics, expected life, storage needs and costs. Evaluation of need, value, and effectiveness are being made so that only those publications and audiovisual products which fill a high priorty need and are necessary to the official business of the agency and the Department are prepared and issued.

We will also be reducing the distribution of publications. We will ask General Services Administration's Consumer Information Center (CIC) to stop offering USDA publications through their catalog and normal media outlets, which generate requests for free publications. This reduces costs in two ways: (1) cuts back on the need to reprint publications for the CIC to distribute, and (2) cuts back on USDA's payment to CIC for postage and handling. We are also reducing the overall numbers of USDA publication titles being offered, and we are cutting back on the number of free publications available to Land Grant Universities.

A reduction of ten staff years will be met through attrition and the elimination of positions.

This concludes my statement, Mr. Chairman. I will be happy to respond to any questions.

(CONGRESSIONAL AFFAIRS)

PREPARED STATEMENT OF MIKE MASTERSON, DIRECTOR

Mr. Chairman, members of the Subcommittee, I am pleased to meet with you to discuss the role of the Office of Congressional Affairs in the Department, and to present the fiscal year 1983 budget request for the Office.

The Office of Congressional Affairs maintains liaison with Congress and the White House on legislative matters of concern to the Department and is responsible for coordinating responses to Congressional requests and for dissemination of information to Congress on such matters as grant announcements, project awards, disaster declarations, program changes, and major Departmental actions. It also makes arrangements for USDA witnesses to appear at Congressional hearings and provides speakers for farm organizations, consumer groups, congressional staff associations and other groups regarding the status of legislation and operations of the Department.

The budget request for fiscal year 1983 is $464,000. This represents an increase of $52,000 over fiscal year 1982.

The request consists of $13,000 to restore pay costs absorbed in fiscal year 1982. The additional $39,000 will be utilized to cover inflationary costs such as equipment rentals, telephone charges, space and supplies.

I will be happy to answer any questions you may have.

(INTERGOVERNMENTAL AFFAIRS)

PREPARED STATEMENT OF LEORA DAY, DIRECTOR

Mr. Chairman, Members of the Committee:

I am pleased to have the opportunity to discuss with you the programs and fiscal year 1983 funding request of the Office of Intergovernmental Affairs.

The major objectives of the Office are (1) to provide coordination between the Secretary's office and State Executives, Executive Departments of State Governments, and other State agencies, and intergovernmental groups, both State and Federal; and (2) to work with the Secretary's office and other Department and Agency officials in formulating policies and programs relating to the conduct of the USDA's programs, emergency mobilization preparedness, natural disaster response, and other emergency program responsibilities, including representation on the NATO Food and Agriculture Planning Committee (FAPC) which meets twice a year at NATO Headquarters, Brussels. NATO established the FAPC to assure planning for an adequate food supply for the Alliance in the event of a serious crisis. This office coordinates the implementation of these plans, policies and programs within the U.S. Department of Agriculture, the Federal Emergency Management Agency, other Federal Departments and Agencies, and State and local governments.

The funding request for fiscal year 1983 is $370,000. This represents an increase of $48,000 over fiscal year 1982.

The request consists of $9,000 to restore pay costs absorbed in fiscal year 1982. The additional $39,000 will be utilized to cover inflationary costs such as equipment rentals, telephone charges, space and supplies.

I will be happy to answer any questions you may have.

BIOGRAPHICAL SKETCHES

MICHAEL J. MASTERSON

Mike Masterson was appointed by Secretary John R. Block in 1981 to coordinate the Department's legislative activities. The Director of Congressional Affairs is responsible for arranging hearings before congressional authorizing committees, reviewing testimony, responding to Members requests and in general advising the Secretary of Agriculture on legislative issues involving the Department.

Before joining the Department, he served as the Deputy Director of the State of Illinois' Washington office. In this capacity he represented the state before the Congress and the Executive branch in the areas of agriculture, transportation and energy.

For seven years he was a congressional aide and served as press secretary, special assistant and administrative assistant for Congressman John B. Anderson. He attended Trinity College in Hartford and received his B.A. in 1968. After college he served in the Army and was awarded the Bronze Star in Vietnam.

LEORA G. DAY

Leora G. Day was named Director for the Office of Intergovernmental Affairs, Office of Governmental and Public Affairs by Secretary John R. Block in 1981.

As Director, Mrs. Day is responsible for USDA liaison activity and consultation with State Agriculture officials, the Office of Intergovernmental Affairs in the White House, Governors, Mayors, State Legislators, County Executives and other State and local officials.

She is the Department coordinator for interagency task forces, emergency preparedness, natural disaster assistance, Federal Regional Councils, and Federal Executive Boards.

An Idahoan, Mrs. Day brings a broad background in agriculture, business, politics and various civic activities to the USDA.

A graduate of Stanford University, Mrs. Day is married and has three children and one grandchild.

OFFICE OF THE GENERAL COUNSEL

PREPARED STATEMENT OF A. JAMES BARNES
GENERAL COUNSEL

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to appear this morning to discuss with you the appropriation request for the Office of General Counsel for fiscal year 1983.

OGC FUNCTIONS AND ORGANIZATION

Before turning to the budget request I would like to take a few moments to explain the responsibilities, functions, and organization of the Office of General Counsel.

The Office serves as legal counsel for the Secretary and performs all legal work for the Department. This includes the entire spectrum of legal work and involves such functions as the provision of written and oral legal advice and opinions; review of rules and regulations; drafting of proposed legislation; preparation and interpretation of contracts; mortgages, leases and deeds; prosecution of patent applications; examination of land titles; representation of the Department in formal administrative proceedings; and referral of cases to the Justice Department for prosecution.

In addition, attorneys from this Office frequently act as trial attorneys in lieu of attorneys from the Justice Department, or handle briefing and argument of cases on appeal. This is done under special delegations of authority from the Justice Department on a case-by-case basis. It is important to note that, while our cases in federal courts are usually tried by attorneys from the Justice Department and the offices of the U.S. Attorneys, the preparation of these cases is always handled by our USDA attorneys. These lines are sometimes blurred, however, and attorneys do handle trial or appellate work with some frequency.

Regarding our organization, OGC has attorneys both in the Washington headquarters and the field. We have eleven divisions in Washington with each division handling the legal work of at least one USDA program agency. Our four Associate General Counsels direct the work of the divisions, each having at least two divisions reporting to them. Approximately 55 percent of our personnel are assigned to Washington.

In the field, OGC has fourteen field offices which primarily support field activities of the Agricultural Stabilization and Conservation Service, Commodity Credit Corporation, Farmers Home Administration, Federal Crop Insurance Corporation, Forest Service, Food and Nutrition Service and Soil Conservation Service. Our field offices are physically located in: Albuquerque, New Mexico; Atlanta, Georgia; Chicago, Illinois; Denver, Colorado; Harrisburg, Pennsylvania; Hato Rey, Puerto Rico; Kansas City, Missouri; Little Rock, Arkansas; Milwaukee, Wisconsin; Missoula, Montana; Ogden, Utah; Portland, Oregon; San Francisco, California; and Temple, Texas. About 45 percent of our personnel are in the field offices.

1983 BUDGET REQUEST

The 1983 budget request for the Office of the General Counsel is $14,197,000. This represents an increase of $867,000 over fiscal year 1982. The increase consists of $683,000 to restore pay costs aborbed in fiscal year 1982; $124,000 for increased operating costs to cover GSA space cost increases; and $60,000 for word processing equipment.

By far the largest proportion of this requested increase, and of OGC's existing budget, consists of personnel costs. This reflects the fact that OGC's major resource is the legal and other personnel who deliver legal services for the Department.

GENERAL COMMENTS

The request for fiscal year 1983 for the Office of the General Counsel is one that will allow OGC to continue to provide quality legal services and to discharge our responsibility as the legal arm of the Department. This request does, however, represent a reduction from recent years' budgets in both dollars and corresponding levels of legal and support staff. It is consistent with the President's goal of reducing the growth of federal spending and improving efficiency. The requested funding level will require us to continue to manage our resources carefully and to continue to provide close scrutiny of all spending decisions--a responsibility we must always exercise in the expenditure of public funds.

As we absorb a slight reduction in our staff ceiling, I feel that it is essential that we continue to place a premium on the quality and quantity of the work product of our employees. We must also become more efficient through the use of existing technology, a subject I will expand upon later. We must strive to keep our productive and experienced employees motivated and interested in remaining with OGC and not simply be a training ground for lawyers who leave for the private sector when they have become most valuable to us. I am committed to aggressively pursuing training, professional development and promotion policies to further this goal. By so doing, we hope to maintain an atmosphere of professionalism where our employees feel challenged and have the incentive to continue to produce high quality legal work.

While two aspects of our requested increase, funding to restore absorbed pay costs and increased operating costs, should require no special explanation, I would like to detail the third part of our requested increase, an additional $60,000 for expansion of word processing equipment. Currently the only word processing equipment in OGC is located in the word processing center at Washington headquarters. Five of our eleven headquarters divisions are serviced by the center. Work now must be sent to the center from the divisions for preparation, returned to the divisions for changes and corrections, and then returned to the center for final copy. While the creation and use of the center has greatly increased the efficiency of the divisions that use its services, backlogs frequently result from the lack of direct access from the divisions to the center.

It is our intention to expand the efficiency and capability of the word processing center by installing remote word processing stations in the serviced divisions which would be connected to the center, and would be used by division secretaries for the preparation of high priority documents and the final correction of documents prepared by the center staff. We also want to expand the word processing capability to the rest of our divisions which are not now serviced by the center. This will require the installation of a remote station in each of those remaining divisions. It will also necessitate the acquisition of an additional printer and an expanded control unit for installation in the center, or the establishment of a second smaller center with equipment to service divisions that are not now in close proximity to the center. The addition of this equipment would enable all of OGC's headquarters to have access to word processing capability.

While I have described the step-by-step process we plan to institute in utilizing the increased funds requested, I would be remiss if I did not explain why we feel it is so necessary that these steps be taken. We now have instances where secretaries must totally retype lengthy documents three or four times. This lessens efficiency and increases secretarial time which, quite frankly, we do not have. Coming to my current position from a private law firm which made extensive use of word processing equipment, I was surprised to discover our inadequate word processing capability. In striving to maintain the provision of quality legal services to the Department in time of budgetary restraint, it is mandatory that we utilize technology and become more efficient with the staff we have. To do this, OGC needs to expand its word processing capability.

LAW LIBRARY TRANSFER

I would also like to bring to the Committee's attention a matter involving future funding of OGC which is not contained in our submission. Last Fall the Committee was notified of the Secretary's determination to transfer the authority for and functioning of the

Department's Law Library from the National Agricultural Library to the General Counsel. The Law Library was formerly a part of what then was the Solicitor's Office until a mass transfer and consolidation of USDA's libraries to NAL occurred during the Second World War. The formal paperwork accomplishing the transfer of the Law Library back to OGC was recently completed. The Law Library staff consisting of five full time positions and funding in the amount of nearly $332,000 was transferred from NAL to OGC for the operation of the Law Library in fiscal year 1982. Because this transfer was accomplished after the submission of the Department's 1983 request, funding for the operation of the Law Library in 1983 does not appear in OGC's request, but is still contained in NAL's.

WORKLOAD

The demands on OGC to provide legal services and representation continue to increase. This pressure is illustrated not only in gross numbers in the workload statistics, which we have provided to the Committee, but also by the number of major issues in which the office was involved and which required particularly careful attention.

Our work measurement reports show that our litigation caseload continues to increase. It was 10,352 on September 30, 1979, 14,578 on October 1, 1980, and 20,238 a year later. Almost 40 percent of our legal staff work is spent on these cases, with an additional 43 percent spent giving advice concerning regulations, legislation, and a wide range of day-to-day problems and the preparation of numerous legal documents.

Among the major issues in which OGC was called upon to play a significant role during 1981 were development of the 1981 Farm Bill, medfly, commodity sales to Poland and New Zealand, meat imports, western water rights, grain elevator bankruptcies, changes in the School Lunch and Food Stamp programs, FmHA lending programs, regulatory reform efforts, review of fruit and vegetable marketing orders, and agricultural labor issues.

There is little prospect that these demands will abate, either in quantity or in the importance of the issues involved, during the current year.

Among the matters in which we anticipate active involvement are:

Price Support and Production Stabilization. During the remainder of this fiscal year and during fiscal year 1983, OGC expects to devote substantial resources to implementation of the provisions of the Agriculture and Food Act of 1981. These efforts will include the drafting and review of regulations and participation in litigation arising from major changes in the price support and production stabilization programs for some crops. For example, there have been major changes in the programs for peanuts and rice, and the Secretary has been directed by the 1981 Farm Bill to make recommendations for changes in the program for tobacco.

Crop Insurance. The amount of legal work required to meet the needs of the crop insurance program continues to grow with the rapid expansion of this program. Over the next eighteen months we expect to be actively involved in the contract problems arising from the shift of the program to increased reliance on private marketing of policies. We will also work with FCIC to rewrite a substantial number of policies to correct problems that have developed over the years and to make them clearer and more readable.

International Affairs. The workload of the General Counsel's Office arising from international aspects of the Department's agricultural programs continues to grow and we expect this trend to continue in fiscal year 1983. The Department is pressing with increasing vigor its objections to subsidized exports of agricultural commodities by other countries. In particular, it is pursuing its rights under the General Agreement on Tariffs and Trade, while at the same time assuring that the U.S. meets its GATT obligations, an activity which requires significant support from the Office of the General Counsel. The Department is also aggressively pursuing the Administration's commitment to increased exports of American agricultural products. These efforts produced increasing amounts of legal work with respect to export credit guarantee programs and other programs to encourage exports.

Food Stamp and Child Nutrition Programs. During fiscal year 1983 OGC expects to devote a substantial portion of its resources to activities related to implementation of changes in the food stamp and child nutrition programs as proposed in the President's FY 1983 budget, as well as continuing work on changes enacted during the last six months. This work will include not only the preparation and review of regulations, but also participation in litigation against the government.

For example, eight lawsuits have already been filed in the federal courts challenging various aspects of the implementation of the food stamp amendments contained in the Omnibus Budget Reconciliation Act of 1981. While the Department of Agriculture is not named as a party in all of these cases, they all involve issues that directly affect the Department's ability to achieve the program savings contemplated in the 1981 Reconciliation Act.

Efforts to increase the integrity of these programs has also created demands for additional legal work in handling claims, criminal prosecutions, and appeals from program disqualifications.

PACA. The pattern of recent years has seen annual increases in the number of disputes submitted to the Department for resolution under the Perishable Agricultural Commodities Act. During fiscal year 1980 there were 129 new reparation cases. There were 173 new cases in fiscal year 1981 and on the basis of the first five months of fiscal year 1982, it appears that the number of new cases will be even higher this year.

Food Safety and Inspection and Grading. The Department has a number of major rulemakings under development, including those concerning Mechanically Processed (Species) Product, the Labeling Approval System, and Beef Grading. These involve significant commitments of time to review and litigation is quite possible once the rulemakings are concluded. OGC is working with the agency on proposed legislation concerning "continuous" inspection and food-safety. In addition, there are a number of problems concerning efforts by states to impose labeling requirements which are different from federal requirements, particularly on meat imports.

Animal and Plant Health Inspection. Quarantines and regulations concerning plant pests (such as medfly), environmental questions raised in connection with treatment programs, and implementation of the endangered species legislation are expected to draw on OGC resources.

Marketing. Implementation of the new fruit and vegetable marketing order guidelines will likely result in proposed amendments to marketing orders and regulations and the need for significant OGC participation in the drafting of rules and in amendment hearings. In addition, the major study of the milk program, including milk marketing orders, which is mandated by the 1981 farm bill will also involve OGC staff.

Packers and Stockyards. Major reviews and revisions of P&S regulations under the regulatory reform directives, and bankruptcies and other problems flowing from current economic conditions will require significant OGC resources.

Farmers Home and REA. Loan servicing problems, bankruptcies of borrowers, loan fund limitations which put a premium on lending decisions, and a pending conversion of REA Bulletin's to Regulations will place a heavy demand on OGC resources.

Natural Resources. Among the major problems that will continue to require OGC attention are land management plans, oil and gas leases, mineral management, boundary line disputes, small business set asides, water rights in Western states, wilderness issues, and timber sales (where the depressed market creates more defaults and in turn more cases before the Court of Claims and the Board of Contract Appeals).

In closing, Mr. Chairman, we believe we will be ready to meet the challenges facing OGC and the Department, and we believe the increases requested for 1983 are absolutely necessary for this purpose. We appreciate the support that you and the Committee have provided to our office in the past.

Thank you very much for the opportunity to discuss the needs of the Office of General Counsel. I'll be happy to answer any questions the Committee may have.

BIOGRAPHICAL SKETCHES

A. JAMES BARNES

Mr. Barnes has served as General Counsel of the Department of Agriculture since May, 1981. In that capacity he is chief legal advisor to the Secretary and the Department, and is responsible for the management of approximately 225 attorneys in the Office of the General Counsel.

From 1975 until his confirmation as General Counsel, Mr. Barnes was an associate and partner in the Washington law firm of Beveridge, Fairbanks and Diamond, and was an Adjunct Professor in the School of Business Administration at Georgetown University. In 1974 Mr. Barnes served as campaign manager for the successful reelection campaign of Governor William G. Milliken of Michigan. Mr. Barnes served in several governmental capacities from 1969 through 1973. He was Assistant to the Deputy Attorney General, Assistant to the Administrator of the Environmental Protection Agency, Special Assistant to the Assistant Attorney General (Civil Division), and trial attorney in the Department of Justice.

Mr. Barnes also served as an Assistant Professor in the Graduate School of Business at Indiana University from 1967 to 1969. He has authored several textbooks on business law.

Mr. Barnes was born in Napoleon, Ohio, and was graduated with high honors from Michigan State University in 1964 where he was President of the Student Government. In 1967 he received his J.D. degree, cum laude, from the Harvard Law School. He is a member of the Indiana and District of Columbia Bars. Mr. Barnes resides in the District of Columbia with his wife and one child.

JOHN E. NOAKES

Mr. Noakes has been serving as Deputy General Counsel of the Department of Agriculture since June, 1981. Prior thereto he was engaged in private and corporate legal practice representing agricultural groups, cooperatives and dairy industry firms in the Northeast United States.

Mr. Noakes was born in Syracuse, New York, in 1920 and received a J.D. degree from the Syracuse College of Law in 1947. He is a member of the bar of the State of New York.

ROBERT H. SINDT

Mr. Sindt has served as Executive Assistant to the General Counsel of the Department of Agriculture since July, 1981. He was elected in 1978, and served from 1979 until his appointment as Executive Assistant to the General Counsel, as Buffalo County, Nebraska Attorney. In 1977 and 1978 Mr. Sindt was a Deputy Buffalo County, Nebraska, Attorney. From 1975 to 1977 Mr. Sindt served as the agricultural aide to Senator Roman L. Hruska and as a minority counsel to the U.S. Senate Committee on the Judiciary. He also was an Instructor of Agricultural Law at the University of Nebraska in 1975.

Mr. Sindt is a native of Minden, Nebraska, and was raised on his family's farm in Franklin County, Nebraska. He received his B.S. degree in Agricultural Economics from the University of Nebraska in 1972, and received his J.D. from the University of Nebraska College of Law in 1975. He is a member of the Nebraska Bar. Mr. Sindt resides in Maryland with his wife.

DEPUTY ASSISTANT SECRETARY FOR ADMINISTRATION

STATEMENT OF JOHN E. SCHROTE

Senator **COCHRAN**. Mr. Schrote, I would invite you to highlight your testimony, and then we will proceed with questions.

Mr. **SCHROTE**. Thank you, Mr. Chairman.

OFFICE OF THE SECRETARY

I think I can very briefly cover the Office of the Secretary. We are asking for $5,406,000, and that reflects an increase of $691,000. That includes $310,000 for an increase in our rental rates, or standard level user charges, for office space, and $341,000 for the pay increases which we have had to absorb.

DEPARTMENTAL ADMINISTRATION

Departmental Administration is divided into staff offices under me and the Office of Budget and Program Analysis, which is under the Deputy Secretary. Also, we have an Office of Energy, over which I have no authority. In total the administration budget is $13,647,000. That reflects a reduction of $821,000.

WORKING CAPITAL FUND

Our working capital fund shows an increase of $3,451,000, for a total of $69,449,000. That includes cost increases. And about $3,644,000 of that is a direct reflection of increased demand placed upon the National Finance Center by the user agencies within the Department. Offsetting that is approximately $127,000 in savings resulting from efficiencies.

Mr. Sherman is here to address any questions as far as the Office of Budget and Program Analysis; Mr. Gavett is here to cover the areas of the Office of Energy; I will try to answer any other questions you have outside of those two particular areas.

Senator **COCHRAN**. Thank you very much, Mr. Schrote.

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

STATEMENT OF CLAUDE W. GIFFORD

Senator **COCHRAN**. I think we will now hear from Mr. Gifford, Acting Assistant Secretary of the Office of Governmental and Public Affairs.

PUBLIC AFFAIRS

Mr. **GIFFORD**. Mr. Chairman, I appreciate the opportunity to briefly summarize our budget request for the Public Affairs Office of the Office of Governmental and Public Affairs.

As you know, we have the central organization responsibility for coordinating the Department's public information activities. The budget request for the fiscal year 1983 is for $6,918,000, and this represents a net decrease of $976,000, or a 12-percent reduction from fiscal year 1982.

The request does include $185,000 to restore the pay cost absorbed in fiscal year 1982, and a decrease of $1,161,000 in keeping with the President's economic recovery plan to reduce Federal spending. In order to achieve that reduction, we will be reducing the distribution of publications. We will ask the General Services Administration's Consumer Information Center to stop offering our publications through their catalogs and media outlets, and this will reduce costs in two ways. We will be able to cut back on the number of reprint copies, and we will be able to cut back on our payment to them for postage and handling.

Also, we will have a reduction in staff years of 10 positions, which we hope to achieve through attrition and elimination of positions.

That, Mr. Chairman, concludes my summary. With me today we have Leora Day, who heads up Intergovernmental Affairs, and Mike Masterson, who heads up Congressional Affairs.

Senator COCHRAN. Thank you, Mr. Gifford.

Mrs. Day.

INTERGOVERNMENTAL AFFAIRS

STATEMENT OF LEORA G. DAY

Mrs. DAY. It is good to be with you, Mr. Chairman.

I am the Director of Intergovernmental Affairs, and our office has a written statement so you can see how it operates. But it basically deals with the Governors, State departments of agriculture, and all other intergovernmental groups in the States. As the President's New Federalism takes hold, this office is going to be one that is very important to the Secretary and to Agriculture.

Our request for the fiscal year 1983 is $370,000. This represents an increase of $48,000. The request consists of $9,000 to restore the pay costs, as Mr. Gifford explained, from the fiscal year 1982 budget, and the additional $39,000 will be utilized to cover the inflationary costs of equipment rentals, telephone charges, space, and utilities.

I would be happy to answer any questions.

Senator COCHRAN. Thank you, Mrs. Day.

Mr. Masterson.

CONGRESSIONAL AFFAIRS

STATEMENT OF MIKE MASTERSON

Mr. MASTERSON. Mr. Chairman, it is a pleasure to meet with you to discuss the role of the Office of Congresssional Affairs in the Department, and to present the fiscal year 1983 budget request for the office.

The Office of Congressional Affairs maintains liaison with Congress and the White House on legislative matters of concern to the Department and is responsible for coordinating responses to congressional requests and for dissemination of information to Congress on such matters as grant announcements, project awards, disaster declarations, program changes, and major departmental actions. It also makes arrangements for USDA witnesses to appear at congressional hearings and provides speakers for many organizations regarding the status of legislation and operations of the Department.

The budget request for fiscal year 1983 for the office is $464,000. This represents an increase of $2,000 over fiscal year 1982. This request consists of $13,000 to restore pay costs absorbed in fiscal year 1982. The additional $39,000 will be utilized to cover inflationary costs.

I would be happy to answer any questions.

Senator **Cochran**. Thank you very much.

Mr. Barnes, General Counsel.

Office of General Counsel

STATEMENT OF A. JAMES BARNES

Mr. **Barnes**. Mr. Chairman, I appreciate the opportunity to appear before you this morning on behalf of the Office of the General Counsel.

Our budget request for the forthcoming year is $14,197,000, a level that will basically allow us to maintain the 1982 level of employment in the Office of the General Counsel. We are asking for an increase to cover pay costs we are absorbing in fiscal year 1982, and to cover rent increases. We are also asking for $60,000 to upgrade our word processing equipment.

I, like the others, would certainly be glad to respond to any questions you may have.

FREEZING PAY INCREASES

Senator **Cochran**. Thank you very much, Mr. Barnes.

I notice that in most all of these budget requests you are asking for increases. You may have heard that some Members of Congress are suggesting that what we ought to do in terms of trying to deal with the budget deficit that is projected for this next fiscal year is impose a freeze on all spending and have no increases—spend only at 1982 levels. What would the practical consequences of that be in your offices?

Mr. **Schrote**. We would be able to survive. At the same time, we would want to put on a freeze as far as Standard Level User Charges and pay increases are concerned.

Senator **Cochran**. Well, if there was legislation enacted to freeze pay increases—increases that have already been approved by legislation—I presume you would have to start firing people; wouldn't you?

Mr. **Schrote**. I think the other people have to speak for their own offices. Within the Office of the Secretary, we have a very lean operation. Further pay increases would cause some difficulties, and we are already having some difficulties in meeting the fiscal year 1982 budget. It would be logical to think that we may have to consider some furlough activities or possible reductions in force. I believe as far as administration is concerned, the impact would not be as great, because it is larger in numbers, and there would be some opportunities for more absorption. On the other hand, we do have an overall net decrease in administration of $821,000, which, I believe, we could probably meet even if we put the freeze on that particular area.

Mr. Sherman could discuss the impact departmentwide better than I could.

BUDGET OF DEPARTMENTAL STAFF OFFICES

Mr. **Sherman**. Mr. Chairman, may I add one additional piece of information. The aggregate request of this group of offices totals about the same dollar amount for fiscal years 1982 and 1983. Within each of the individual offices, as has been indicated by the witnesses, there are some specific increases and some decreases. In those offices that do have increases, such as the last October pay raise and other operating costs, principally the space rate increase that was set by GSA, those increased costs will have to be borne, and there will have to be offsetting reductions in other areas. These small staff offices are essentially labor-intensive. In most cases about 80 percent of all of the costs incurred are for the salaries and benefits of the people operating in these offices. I am certain that if each individual organization were held at the same funding level as 1982, it would require reductions in the staff and an associated reduction in the services that are provided

Senator **Cochran**. I appreciate having the benefit of those observations.

OFFICE OF THE SECRETARY STAFFING LEVEL

You mentioned, Mr. Schrote, that you have a pretty tight operation there at the Office of the Secretary. Do the budget requests contemplate any increase in staffing; are any new personnel being added to the staff of the Office of the Secretary?

Mr. **Schrote**. No, not at this time. We are at the point where our main consideration is the budget. The Office of the Secretary is under ceiling, and certainly we have manpower dynamics within the Office of the Secretary. The Office of the Secretary includes all of the Assistant and the Under Secretaries. We would hope to at least have some flexibility to meet particular needs, requirements, and possible emergencies. We would also like to see at least some possibility that we could meet particular manpower requirements that we cannot anticipate at the moment.

SENIOR EXECUTIVE SERVICE PERSONNEL

Senator **Cochran**. Last year when we were looking at the budget request, we asked the Office of the Secretary to provide the subcommittee with a listing of all senior executive service personnel in the Department. It would be appreciated if you could provide the subcommittee with an updated listing, so we could have that for the record.

Mr. **Schrote**. Yes, sir, we can furnish that.

Senator **Cochran**. I wonder if you know how many additional senior executive service slots were requested for 1982 and 1983.

Mr. **Schrote**. We can provide that information for you later, but there was a reduction.

Senator **Cochran**. How does this compare with other Cabinet-level agencies?

Mr. **Schrote**. I am sorry, I don't know.

PAY BONUSES

Senator **Cochran**. I would like to have that information provided for the record. Also, of course, there is a program for pay bonuses.

Mr. **Schrote**. Yes, sir.

Senator **Cochran**. I would like to have for the record an update of the listing of recipients of bonuses and the amounts received.

Mr. **Schrote**. Yes, sir, we can furnish that.

TRAVEL

Senator **Cochran**. What about your travel budget? I notice that you are projecting an increase in travel of $34,000 over last year, which amounts to $168,572 over fiscal 1981. Why is that?

Mr. **Schrote**. I believe that just reflects the inflationary cost increases.

Senator **Schrote**. How about providing me, while you are giving me this other information, an indication of how much USDA spent in travel in fiscal years 1981, 1982, and what your projections are for 1983.

Mr. **Schrote**. We will be happy to do that, sir.

[**Clerk's note**.—The information referred to above appears on pages 245-275.

Mr. **Schrote**. You may be interested to know that we are establishing additional controls on travel, not only in the Office of the Secretary, but within the agencies as well.

POLISH AND ROMANIAN DEBT

Senator **Cochran**. You have had a busy year, Mr. Barnes. Were you involved in the decision the Secretary made in connection with the Commodity Credit Corporation's assumption of debts to Poland and Romania? Do you have to give legal opinions to the Secretary on items such as that?

Mr. **Barnes**. Yes, sir, we did have a busy year. With particular reference to the Polish credits guaranteed by the Commodity Credit Corporation that Poland has not honored, we were quite involved in that issue.

Senator **Cochran**. We are going to be looking in some detail at that entire situation when the Commodity Credit Corporation comes before the subcommittee. You function as house counsel for the Corporation, as well as the other agencies and offices of the Department.

Mr. **Barnes**. That is correct. I am the General Counsel of the Commodity Credit Corporation as well.

QUALITY OF LEGAL STAFF

Senator **Cochran**. There was some concern last year, I recall, about being able to attract good lawyers into your office and keeping them once you got some people and knew what they were doing. What is the situation now? Do you feel you have a competent staff of attorneys within the office?

Mr. **Barnes**. Yes, I am pleased with the overall quality of the office. Because of the general restrictions of budget and ceilings, we have only made offers for the rest of the year to three lawyers at this point. One of them is from Harvard, another from the University of Michigan, and another from Notre Dame. These are people who have accepted.

Senator **Cochran**. The University of Mississippi has some good lawyers.

Mr. **Barnes**. Yes, sir. We would be happy to consider some of them for employment in our office.

Senator **Cochran**. I didn't mean to be critical. I realize there are other more well-known law schools. Occasionally, however, someone graduates from one that isn't so well known.

Mr. **Barnes**. And graduates from those schools go on to aspire to higher things, like U.S. Senators.

IMPACT OF RAISING THE PAY CAP

Senator **Cochran**. I voted to raise the pay cap, worrying that we were getting to a point where we were losing good, qualified people to the private sector and maybe other jobs, and that we were going to be witnessing the development of an inferior quality Government employee. You have to recognize the economic facts that exist. Do you assess the change that was made by Congress as having a beneficial impact on your effort to recruit and retain good quality lawyers?

Mr. **Barnes**. Absolutely. Mr. Chairman, I think that was critical to our ability to be able to hold the upper level lawyers who are experienced, who have demonstrated their ability to do the job, and who are the ones we heavily depend on. One further point, I might make, illustrates the problem that you are pointing out. Some of the top graduates of law schools can go into law firms here and in New York and draw salaries in the $40,000 range. I have to have a lawyer in my office almost 5 years before I can pay him or her at that level. That does make it tough trying to recruit. You have to find somebody who has a particular interest in public service and who is willing to sacrifice. Coming out of private practice, I happen to think we pay the young lawyers too much relative to their experience, but it is a fact of life. I expect my experience on the difficulties of retaining upper level people are probably shared by other members of the panel.

Senator **Cochran**. What is the starting salary you are able to pay a beginning lawyer?

Mr. **Barnes**. It is a GS-11. I am sorry, I don't have the precise figure.

Mr. **Sherman**. $23,500 is the starting pay at the GS-11.

Senator **Cochran**. That is irrespective of any differences in perceived quality of the applicant; that is the starting salary for a new lawyer.

Mr. **Barnes**. That is correct.

PAY INCREASES FOR ATTORNEYS

Senator **Cochran**. Do these lawyers get automatic raises irrespective of how they perform, or do they get what amounts to merit increases after they are with you 1 year or 2 or 3 or 4?

Mr. **Barnes**. It is really a combination of factors, Mr. Chairman. In the time I have been in this office, I have insisted we not promote attorneys to higher grades unless they have demonstrated they are carrying their share of the workload and are producing the quality of work we expect. I would really rather start over again if we find somebody who is not producing. So before advancing lawyers in grade, we insist that our lawyer-managers document the performance of their people. I look for the opportunity to work with as many of our lawyers as I can, so I have my own assessment of how well they are producing. If they are not producing satisfactorily, they will not be getting raises. I suppose that would be a disincentive to continue working in the office. On the other hand, we want to make certain, where we have individuals who are producing, that we recognize their contribution and try, within our pay system, to help them keep up with their peers both in government and elsewhere.

LEGAL WORK FOR FARMERS HOME ADMINISTRATION

Senator **Cochran**. I presume that your office handles the legal work connected with debt collection and foreclosures of the Farmers Home Administration. If that is correct, what has been the rate of activity this year as compared with previous years?

Mr. **Barnes**. We have seen an increase in the number of matters that are referred to us by the Farmers Home Administration. Many of these are claim collections including foreclosure matters. There also has been a substantial increase in the number of bankruptcy actions we find ourselves involved in, as well as in the number of suits by individuals who have applied for loans and have been turned down. So we are in the posture of defending litigation in many of these cases. Overall, there has been a steady increase in the legal work for Farmers Home Administration.

Senator **Cochran**. Your notes indicate that about 50 percent of the time of the Office of General Counsel field offices is spent on Farmers Home Administration programs.

Mr. **Barnes**. That is correct.

Senator **Cochran**. Your office here in Washington is not nearly so weighted to that one agency.

Mr. **Barnes**. That is correct. Nine out of one hundred thirty lawyers are working on Farmers Home matters here.

AGRICULTURE YEARBOOK

Senator **Cochran**. Mr. Gifford, you supervise the distribution of some publications. The Agriculture yearbook is one of them. That is something that comes up for some scrutiny from time to time. Are we going to have a 1982 yearbook?

Mr. **Gifford**. Yes, Mr. Chairman, we shall have a yearbook in 1982. We are just about to make a decision as to the subject matter this week.

Senator **Cochran**. No leaks? You are not leaking? No staff meeting notes to pass on? [Laughter.]

COST OF THE YEARBOOK

What was the total cost of producing the 1981 yearbook? Do you have that?

Mr. **Gifford**. For the 1981 yearbook, the printing cost was $372,500, which was a good price this year. The printing cost depends on the bid, of course, and whether you have printing plants looking for business. If you include the yearbook design work and the salary and benefits of the editor and assistant editor, the two people directly responsible for it, the total would, with printing, come to $435,000. Then in addition, the Department of Agriculture agencies also ordered some copies; an order for which they paid $30,750 in aggregate.

Senator **Cochran**. What are you projecting for the 1982 yearbook? Is that a figure that is included in your budget request?

Mr. **Gifford**. Yes, it is, Mr. Chairman, as a part of the reprint fund. Again, the size of the book will probably be about the same as in 1981, with the same economies that we can make, and the actual cost will depend on the bidding process for the printing.

Senator **Cochran**. You let this out for private bidding?

Mr. **Gifford**. Yes, we do.

Senator **Cochran**. You don't have it printed by GPO.

Mr. **Gifford**. The contracting is handled by the Government Printing Office, and they have a choice as to whether or not they will print it or put it out on the street for bids. Sometimes they print it in-house. The 1981 yearbook went out for bids and was printed by the Donnelly Company.

STAFF YEAR REDUCTION

Senator **Cochran**. In your statement you mentioned that your budget request would result in a reduction of some 10 staff-years. Will this be handled through attrition or will there actually be a requirement to dismiss existing employees?

Mr. **Gifford**. Well, we hope we will be able to handle it through attrition. That depends, of course, on what happens through the course of the year.

REDUCTION IN NUMBER OF PUBLICATIONS

Senator **Cochran**. In addition to the Agriculture Yearbook, I know there are other publications which are distributed. Can you give us some estimate about the comparison between the publications that will be put out next year as compared to this year? Will there be more or fewer?

Mr. **Gifford**. There will be fewer in our office, and there will be fewer publications for the entire Department of Agriculture. We have had a publication control system that we put into effect this year and which, in effect, asks every agency to take a closer look at what they are publishing. We started that in fiscal year 1981, and the Department made a saving, of approximately a million dollars in publications and audiovisuals. We anticipate in fiscal year 1982, as a result of this control program, that the Department will save approximately $3.5 million.

NATO FOOD CONFERENCE

Senator COCHRAN. I notice that one of the activities that comes under the purview of Intergovernmental Affairs is the NATO Food Conference.

Mrs. DAY. Yes, it is the North Atlantic Treaty Organization Food and Agriculture Planning Committee. It is a civil emergency planning committee.

Senator COCHRAN. Is this something that is a function of our government or do we cooperate with other NATO countries in coming together twice a year to talk about whatever you talk about?

Mrs. DAY. We cooperate with the other NATO governments. This is in case of an international emergency within the NATO alliance.

USDA EMERGENCY PREPAREDNESS

Senator COCHRAN. Have you been to the conference?

Mrs. DAY. Yes. We used to have a representative who was in my office. He has now retired and left the Government, so I have assumed that responsibility. It is very similar, to the responsibility that I have as the USDA emergency coordinator. My responsibility is to coordinate all emergency preparedness functions within the Department. The two positions are similar, but one is with the NATO countries. The Food and Agriculture Planning Committee also has a Central Supplies Agency which takes over the responsibility of the Food and Agriculture Planning Committee in the event of an actual emergency. We have several representatives throughout the Department of Agriculture that serve on the Central Supplies Agency along with other private citizens and other Federal departments.

WORLD FOOD CONFERENCE

Senator COCHRAN. Does your office also coordinate the meeting of the World Food Conference?

Mrs. DAY. No, we don't have anything to do with that.

INTERGOVERNMENTAL AFFAIRS PERSONNEL LEVEL

Senator COCHRAN. Are you going to have enough personnel with this budget request to do the job you are expected to do?

Mrs. DAY. I appreciate that question, because there are only five staff-years in my budget. I am one of those who really believes in cutting down. So I think we are just going to have to work harder.

Senator COCHRAN. That is a good spirit.

CONGRESSIONAL AFFAIRS PERSONNEL LEVEL

Mike, in your office do you have enough people to do the job you are expected to do?

Mr. MASTERSON. I anticipate we should have sufficient staff. We have currently the same number of staff-years as last year, and we are not projecting an increase in size. We are trying to get by on the same number, even though the hearing requests have been quite high and the congressional requests for information are not decreasing.

SUBMITTED QUESTIONS

Senator COCHRAN. I don't have any other questions at this point. If others occur to us, we will send them to you and would appreciate your responding to any written requests for information we may have later. Thank you for being here and for helping us to understand the budget request for next year.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

OFFICE OF THE SECRETARY/DEPARTMENTAL ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR COCHRAN

USDA TRAVEL

Because of tight budget constraints, travel should have been curtailed during the past two years.

Question: How much did USDA spend in travel in fiscal year 1981, 1982 and what do you plan to spend in 1983?

Answer: USDA obligated $149 million for travel in FY 1981. It is estimated that the Department will spend $154 million in FY 1982 and $158 million in FY 1983. Although the dollars have increased each year the actual amount of travel has been reduced over a two year period. Per Diem days were reduced from 1,894,274 days in Fiscal Year 1979 to 1,450,548 days in Fiscal Year 1981. Miles of vehicle travel performed were reduced from 160,706,912 in Fiscal Year 1979 to 115,765,319 in Fiscal Year 1981.

Question: What were USDA's transportation expenses in fiscal years 1981, 1982 and projected for 1983?

Answer: In FY 1981, USDA obligated $507 million in transportation expenses. It is estimated that the Department will spend $530 million in FY 1982 and $553 million in FY 1983.

Question: The Explanatory Notes indicate that the amount of funds for travel for the Office of the Secretary for fiscal year 1983 will increase $34,000 over fiscal year 1982 and $168,572 over fiscal year 1981. Please explain.

Answer: The travel estimates for both fiscal years 1982 and 1983 are the travel ceilings for the Office of the Secretary. Travel in fiscal year 1981 was extremely low because of the lapse time in hiring new personnel. This is not a representative year. The $34,000 increase for fiscal year 1983 over fiscal year 1982 is an inflation factor of 11% for increased costs per trip.

Question: Please provide for the record the travel budgets for each agency for fiscal year 1981, 1982 and projected for 1983.

Answer: The information follows:

UNITED STATES DEPARTMENT OF AGRICULTURE
TRAVEL OBLIGATIONS
AS SHOWN IN FY 1983 BUDGET
($ in Thousands)

	1981 Actual	1982 Estimate	1983 Request
SCIENCE AND EDUCATION			
Agricultural Research Service	$4,905	$4,656	$4,974
Cooperative State Research Service	403	410	344
Extension Service	584	625	499
National Agricultural Library	51	48	50
INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS			
Agricultural Stabilization and Conservation Service	2,857	3,336	3,465
Federal Crop Insurance Corporation	6,467	8,325	8,408
Foreign Agricultural Service	1,632	2,182	2,378
Office of International Cooperation and Development	3,764	3,731	3,813
NATURAL RESOURCES AND ENVIRONMENT			
Forest Service	48,122	45,902	46,602
Soil Conservation Service	11,355	12,073	12,500
SMALL COMMUNITY AND RURAL DEVELOPMENT			
Farmers Home Administration	14,870	16,489	18,243
Rural Electrification Administration	1,587	1,990	1,980
Office of Rural Development Policy	80	80	88
FOOD AND CONSUMER SERVICES			
Food and Nutrition Service	5,170	5,140	5,721
Human Nutrition Information Service	51	50	50
MARKETING AND INSPECTION SERVICES			
Federal Grain Inspection Service	2,585	3,381	3,295
Animal and Plant Health Inspection Service	9,118	9,005	7,985
Food Safety and Inspection Service	20,126	14,216	14,650
Agricultural Cooperative Service	211	200	160
Agricultural Marketing Service	5,187	11,817	10,753
Office of Transportation	92	116	116
Packers and Stockyards Administration	525	621	620
ECONOMICS			
Economic Research Service	610	573	628
Statistical Reporting Service	1,030	1,204	1,316
World Agricultural Outlook Board	37	61	69
ADMINISTRATION			
Office of the Secretary	253	340	374
Departmental Administration	631	623	575
Office of Budget and Program Analysis	(16)	(23)	(25)
Office of Governmental and Public Affairs ..	117	102	108
Office of the Inspector General	5,827	6,432	7,813
Office of the General Counsel	204	230	250
TOTAL, United States Department of Agriculture	148,451	153,958	157,827

SENIOR EXECUTIVE SERVICE

Question: Last year you provided the subcommittee a listing of all Senior Executive Service personnel in USDA. Please update this list for the record.

Answer: The information follows:

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
James C. Handley	Office of the Secretary	Special Assistant to the Secretary	2/25/81	Noncareer	General
James H. Johnson	Office of the Secretary	Special Assistant to the Secretary	3/16/81	Noncareer	General
John E. Schrote	Office of the Secretary	Deputy Assistant Secretary for Administration	7/6/81	Noncareer	General
Raymond Lett	Office of the Secretary	Executive Assistant to the Secretary	1/26/81	Noncareer	General
Thomas Hammer	Office of the Secretary	Deputy Under Secretary for International Affairs and Commodity Programs	4/26/81	Noncareer	General
Richard D. Siegel	Office of the Secretary	Deputy Assistant Secretary for Natural Resources and Environment	5/26/81	Noncareer	General
Douglas W. MacCleery	Office of the Secretary	Deputy Assistant Secretary for Natural Resources and Environment	8/3/81	Noncareer	General
John W. Bode	Office of the Secretary	Deputy Assistant Secretary for Food and Consumer Services	5/21/81	Noncareer	General
J. Dawson Ahalt	Office of the Secretary	Deputy Assistant Secretary for Economics	4/13/81	Career	General
John E. Ford	Office of the Secretary	Deputy Assistant Secretary for Marketing and Inspection Services	3/21/81	Noncareer	General
Ruth Reister	Office of the Secretary	Deputy Under Secretary for Small Community and Rural Development	5/20/81	Noncareer	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Anthony J. Gabriel	Office of Inspector General	Deputy Inspector General	11/15/81	Noncareer	General
Gerald W. Peterson	Office of Inspector General	Deputy Assistant Inspector General for Auditing	9/16/79	Career	Career Reserved
Thomas J. Burke	Office of Inspector General	Deputy Assistant Inspector General for Investigations	12/14/80	Career	Career Reserved
Robert F. Smith	Office of Inspector General	Assistant Inspector General for Security and Internal Operations	11/15/81	Career	Career Reserved
John E. Noakes	Office of the General Counsel	Deputy General Counsel	6/7/81	Noncareer	General
Richard L. Fowler	Office of the General Counsel	Associate General Counsel, Community Development & Natural Resources	8/24/80	Career	General
James Hinchman	Office of the General Counsel	Associate General Counsel, Production, Distribution & Assistance	8/24/80	Career	General
Miriam Bender	Office of the General Counsel	Associate General Counsel, Regulatory & Marketing	8/24/80	Career	General
James A. Kelly	Office of the General Counsel	Associate General Counsel, Legislation, Litigation, Research and Operations	8/24/80	Career	General
James V. Loughran	Office of the General Counsel	Assistant General Counsel, Community Development Division	8/24/80	Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Clarence Brizee	Office of the General Counsel	Assistant General Counsel, Natural Resources Division	9/7/80	Career	General
Michael W. Kelly	Office of the General Counsel	Assistant General Counsel, Electric & Telephone Division	8/24/80	Career	General
Rosina B. Ducrest	Office of the General Counsel	Assistant General Counsel, Foreign & Agricultural & Commodity Stabilization Division	8/24/80	Career	General
Kenneth H. Vail	Office of the General Counsel	Assistant General Counsel, Packers and Stockyards	12/27/81	Career	General
John Chernauskas	Office of the General Counsel	Assistant General Counsel, Marketing Division	8/24/80	Career	General
Ronald D. Cipolla	Office of the General Counsel	Assistant General Counsel, Regulatory Division	8/24/80	Career	General
William J. Stokes	Office of the General Counsel	Assistant General Counsel, Research and Operations Division	8/24/80	Career	General
Michael J. Masterson	Office of Governmental and Public Affairs	Deputy Director for Congressional Affairs	9/20/81	Noncareer	General
Leora Day	Office of Governmental and Public Affairs	Deputy Director for Intergovernmental Affairs	9/20/81	Noncareer	General
Claude W. Gifford	Office of Governmental and Public Affairs	Deputy Director for Publications and Visual Communications	7/13/79	Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
John W. Fossum	Office of Personnel	Director	6/1/80	Career	General
Charles A. Bucy	Office of Personnel	Deputy Director	7/29/79	Career	General
Dean K. Crowther	Office of Operations & Finance	Director	7/13/79	Career	General
Bruce R. Riggs	Office of Operations & Finance	Deputy Director for Data Services	7/8/79	Career	General
Robert V. Head	Office of Operations & Finance	Assistant to the Director for ADP Technology and Development	8/10/75	Career	General
Frank Gearde	Office of Operations & Finance	Deputy Director for Administrative Services	4/24/80	Career	Career Reserved
Larry Wilson	Office of Operations & Finance	Deputy Director, Finance	2/10/80	Career	General
Clyde McShan	Office of Operations & Finance	Deputy Director, National Finance Center	4/24/80	Career	General
James Frazier	Office of Equal Opportunity	Director	7/27/76	Career	General
Doris Thompson	Office of Equal Opportunity	Deputy Director	3/9/80	Career	General
Michael E. Brunner	Farmers Home Administration	Associate Administrator	1/10/82	Noncareer	General
Kenneth E. Latcholia	Farmers Home Administration	Deputy Administrator, Rural Development	7/13/79	Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Dwight O. Calhoun	Farmers Home Administration	Assistant Administrator, Community Programs	8/15/76	Career	General
Lorimer D. Elwell, Jr.	Farmers Home Administration	Assistant Administrator, Rural Housing	6/23/74	Career	General
H. Allan Brock	Farmers Home Administration	Deputy Administrator, Farm and Family Programs	12/17/78	Career	General
A. Jennings Orr	Farmers Home Administration	Assistant Administrator, Single Family Housing	7/13/79	Career	General
Charles A. Jewel	Farmers Home Administration	Deputy Administrator, Financial and Administrative Operations	2/21/82	Career	Career Reserved
Clarence Squellati	Farmers Home Administration	Director, Finance Office	11/20/75	Career	Career Reserved
Willard L. Phillips, Jr.	Office of Rural Development Policy	Deputy Director	11/10/81	Noncareer	General
Jack VanMark	Rural Electrification Administration	Deputy Administrator	1/12/82	Noncareer	General
John H. Arnesen	Rural Electrification Administration	Assistant Administrator, Telephone	7/13/79	Career	General
Joseph S. Zoller	Rural Electrification Administration	Assistant Administrator, Electric	4/2/79	Career	General
Sheldon Chazin	Rural Electrification Administration	Financial Manager	7/13/79	Career	Career Reserved
R. Max Peterson	Forest Service	Chief	7/13/79	Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Douglas R. Leisz	Forest Service	Associate Chief	1/14/79	Career	General
Jerome A. Miles	Forest Service	Deputy Chief, Administration	1/14/79	Career	Career Reserved
Glenn P. Haney	Forest Service	Associate Deputy Chief for Administration	8/1/76	Career	General
William P. Williams	Forest Service	Associate Deputy Chief for Administration	10/22/78	Career	Career Reserved
Leon H. Anderson	Forest Service	Director, Human Resource Programs	3/26/78	Career	General
Wallace R. Otterson	Forest Service	Director, Personnel Management Staff	6/17/79	Career	General
Robert E. Buckman	Forest Service	Deputy Chief, Research	4/11/76	Career	General
Floyd B. Clark	Forest Service	Associate Deputy Chief for Research	10/19/80	Career	General
Keith Shea	Forest Service	Associate Deputy Chief for Research	2/10/80	Career	General
Ronald D. Lindmark	Forest Service	Director, Forest Environment Research Staff	1/24/82	Career	Career Reserved
Gerald W. Anderson	Forest Service	Director, Insects and Disease Research Staff	7/13/79	Career	Career Reserved
Stanley L. Krugman	Forest Service	Director, Timber Management Research Staff	8/27/78	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
John L. Erickson	Forest Service	Director, Forest Products and Engineering Research	5/4/80	Career	Career Reserved
Raymond M. Housley	Forest Service	Deputy Chief, National Forest System	1/15/81	Career	General
Gary E. Cargill	Forest Service	Associate Deputy Chief, National Forest Systems	1/25/81	Career	General
Junior B. Hilmon	Forest Service	Associate Deputy Chief, National Forest Systems	4/8/79	Career	General
William L. Evans	Forest Service	Director, Range Management Staff	6/8/75	Career	Career Reserved
Roy W. Feuchter	Forest Service	Director, Recreation and Management Staff	2/25/79	Career	Career Reserved
Norman E. Gould	Forest Service	Director, Timber Management Staff	9/11/77	Career	Career Reserved
Robert H. Tracy	Forest Service	Director, Watershed Management Staff	7/1/79	Career	Career Reserved
Howard E. Banta	Forest Service	Director, Minerals and Geology Staff	6/17/79	Career	Career Reserved
Dale A. Jones	Forest Service	Director, Wildlife Management Staff	6/17/79	Career	Career Reserved
Myles R. Howlett	Forest Service	Director, Engineering Staff	5/30/71	Career	Career Reserved
Allan J. West	Forest Service	Director, Aviation and Fire Management Staff	10/18/81	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Richard D. Hull	Forest Service	Director, Lands Staff	7/27/80	Career	Career Reserved
Charles R. Hartgraves	Forest Service	Director, Land Management Planning	11/6/77	Career	Career Reserved
John H. Ohman	Forest Service	Deputy Chief, State and Private Forestry	6/19/81	Career	General
Allen J. Schacht	Forest Service	Associate Deputy Chief for State and Private Forestry	11/1/81	Career	General
John A. Vance	Forest Service	Director, Area Planning and Development	2/24/80	Career	Career Reserved
Frederick A. Dorrell	Forest Service	Director, Cooperative Forestry Staff	8/1/76	Career	Career Reserved
James L. Stewart	Forest Service	Director, Forest Insect and Disease Management Staff	2/27/77	Career	Career Reserved
J. Lamar Beasley	Forest Service	Deputy Chief for Programs and Legislation	9/21/80	Career	General
F. Dale Robertson	Forest Service	Associate Deputy Chief for Program and Legislation	8/9/81	Career	General
William Rice	Forest Service	Director, Program Development and Budget Staff	6/1/80	Career	General
Thomas Hamilton	Forest Service	Director, Resources Program and Assessment	3/23/80	Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
David E. Ketcham	Forest Service	Environment Coordinator	6/17/79	Career	General
Charles T. Coston	Forest Service	Regional Forester, Region 1, Missoula, Montana	7/13/79	Career	General
Craig W. Rupp	Forest Service	Regional Forester, Region 2, Lakewood, Colorado	7/4/76	Career	General
Milo J. Hassell	Forest Service	Regional Forester, Region 3, Albuquerque, New Mexico	8/1/76	Career	General
Jeff M. Sirmon	Forest Service	Regional Forester, Region 4, Ogden, Utah	6/1/80	Career	General
Zane G. Smith, Jr.	Forest Service	Regional Forester, Region 5, San Francisco, California	8/27/78	Career	General
Richard E. Worthington	Forest Service	Regional Forester, Region 6, Portland, Oregon	8/5/73	Career	General
Steven Yurick	Forest Service	Regional Forester, Region 9, Milwaukee, Wisconsin	7/4/76	Career	General
John A. Sandor	Forest Service	Regional Forester, Region 10, Juneau, Alaska	3/13/76	Career	General
Denver P. Burns	Forest Service	Station Director, Northeastern Forest Experiment Station	12/27/81	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Robert A. Hann	Forest Service	Station Director, North Central Experiment Station	7/13/79	Career	Career Reserved
Robert Ethington	Forest Service	Station Director, Pacific Northwest Forest and Range Experiment Station	10/21/79	Career	Career Reserved
Laurence E. Lassen	Forest Service	Station Director, Southern Forest Experiment Station	5/23/76	Career	Career Reserved
Eldon W. Ross	Forest Service	Station Director, Pacific Southeast Forest and Range Experiment Station	3/11/79	Career	Career Reserved
Robert Z. Callaham	Forest Service	Station Director, Pacific Southwest Forest and Range Experiment Station	10/24/76	Career	Career Reserved
Roger R. Bay	Forest Service	Station Director, Intermountain Forest and Range Experiment Station	4/28/74	Career	Career Reserved
Charles Loveless	Forest Serivce	Station Director, Rocky Mountain Forest Range Experiment Station	5/17/81	Career	Career Reserved
Robert D. Raisch	Forest Service	Director, Southeast Area for State and Private Forestry	2/24/80	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Robert L. Youngs	Forest Service	Director, Forest Products Laboratory	7/13/75	Career	Career Reserved
Norman A. Berg	Soil Conservation Service	Chief	9/12/79	Career	General
David G. Unger	Soil Conservation Service	Associate Chief	12/30/79	Career	General
Richard Duesterhaus	Soil Conservation Service	Assistant Chief - Northeast	5/4/80	Career	General
Galen Bridge	Soil Conservation Service	Assistant Chief - Northwest	5/4/80	Career	General
Edward E. Thomas	Soil Conservation Service	Assistant Chief - Southeast	5/4/80	Career	General
Thomas Rockenbaugh	Soil Conservation Service	Assistant Chief - Southwest	7/26/81	Career	General
Benny Martin	Soil Conservation Service	Assistant Chief - Midwest	9/7/80	Career	General
Robert G. Halstead	Soil Conservation Service	Deputy Chief for Administration	10/11/81	Career	Career Reserved
Jacqueline G. Sutton	Soil Conservation Service	Associate Deputy Chief for Administration	1/31/82	Career	Career Reserved
Cletus J. Gillman	Soil Conservation Service	Deputy Chief for State and Local Operations	5/4/80	Career	General
Jerome Hytry	Soil Conservation Service	Director, Conservation Planning and Application	9/21/80	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Dennie Burns	Soil Conservation Service	Director, Land Treatment Programs	9/7/80	Career	Career Reserved
Ralph J. McCracken	Soil Conservation Service	Deputy Chief for Natural Resources Assessments	1/18/81	Career	General
Gerald D. Seinwill	Soil Conservation Service	Associate Deputy Chief for Natural Resource Projects	12/6/81	Career	General
Edgar Nelson	Soil Conservation Service	Director, Basin and Area Planning	9/7/80	Career	Career Reserved
Paul M. Howard	Soil Conservation Service	Deputy Chief for Technology Development and Application	5/4/80	Career	Career Reserved
Neil F. Bogner	Soil Conservation Service	Associate Deputy Chief Technology Development and Application	2/22/81	Career	General
Thomas N. Shiflet	Soil Conservation Service	Director, Ecological Sciences	5/4/80	Career	Career Reserved
Buell M. Ferguson	Soil Conservation Service	Director, Engineering	10/4/81	Career	Career Reserved
Joseph W. Haas	Soil Conservation Service	Deputy Chief for Natural Resource Project	5/4/80	Career	Career Reserved
Klaus W. Flach	Soil Conservation Service	Associate Deputy Chief for Natural Resource Project	5/4/80	Career	General
Richard Arnold	Soil Conservation Service	Director, Soils	9/7/80	Career	Career Reserved
Kenneth L. Williams	Soil Conservation Service	Deputy Chief for Planning and Evaluation	5/4/80	Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Joseph S. Bennett	Food and Nutrition Service	Deputy Administrator for Management	3/24/80	Career	Career Reserved
Robert E. Leard	Food and Nutrition Service	Director, Policy, Planning and Evaluation	2/22/82	Noncareer	General
Raymond A. Pugh	Food and Nutrition Service	Deputy Administrator for Financial Management	9/3/78	Career	Career Reserved
Andrew P. Hornsby	Food and Nutrition Service	Deputy Administrator for Regional Operations	4/6/80	Career	General
David B. Alspach	Food and Nutrition Service	Regional Administrator, Southeast Region	9/15/76	Career	General
Monroe Woods	Food and Nutrition Service	Regional Administrator, Midwest Regional Office	7/13/79	Career	General
Gene Dickey	Food and Nutrition Service	Regional Administrator, Southwest Region	11/1/80	Career	General
Billy W. Wood	Food and Nutrition Service	Regional Administrator, Mountain Plains Regional Office	7/13/79	Career	General
R. Hicks Elmore, Jr.	Food and Nutrition Service	Regional Administrator, Western Region	5/13/79	Career	General
Harold T. McLean	Food and Nutrition Service	Regional Administrator, New England Regional Office	7/13/79	Career	General
Randall E. Torgerson	Agricultural Cooperative Service	Administrator	11/16/80	Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Mildred E. Thymian	Agricultural Marketing Service	Administrator	3/16/81	Noncareer	General
Irving W. Thomas	Agricultural Marketing Service	Deputy Administrator, Management	9/28/75	Career	Career Reserved
William T. Manley	Agricultural Marketing Service	Deputy Administrator, Marketing Program Operations	4/11/76	Career	General
Herbert L. Forest	Agricultural Marketing Service	Director, Dairy Division	8/30/80	Career	Career Reserved
Thomas VonGarlem	Agricultural Marketing Service	Director, Tobacco Division	1/13/80	Career	Career Reserved
Jesse D. Moore	Agricultural Marketing Service	Director, Cotton Division	12/14/75	Career	Career Reserved
James E. Springfield	Agricultural Marketing Service	Director, Warehouse Division	9/11/79	Career	Career Reserved
Charles R. Brader	Agricultural Marketing Service	Director, Fruit and Vegetable Division	6/3/79	Career	Career Reserved
Thomas H. Porter	Agricultural Marketing Service	Director, Livestock, Poultry, Grain and Seed Division	7/13/79	Career	Career Reserved
H. Connor Kennett	Agricultural Marketing Service	Director, Poultry	10/1/81	Career	Career Reserved
Eddie Kimbrell	Agricultural Marketing Service	Deputy Administrator, Marketing Program Operations	9/24/78	Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Harry Mussman	Animal and Plant Health Inspection Service	Administrator	7/13/80	Career	General
James O. Lee, Jr.	Animal and Plant Health Inspection Service	Associate Administrator	3/1/80	Career	General
John E. Carson	Animal and Plant Health Inspection Service	Deputy Administrator for Management	10/28/73	Career	Career Reserved
Larry Slagle	Animal and Plant Health Inspection Service	Assistant Deputy Administrator for Management	7/12/79	Career	Career Reserved
Harvey Ford	Animal and Plant Health Inspection Service	Deputy Administrator, Plant Protection and Quarantine	3/1/80	Career	General
William Helms	Animal and Plant Health Inspection Service	Associate Deputy Administrator, Plant Protection and Quarantine	2/1/81	Career	General
Gregor G. Rohwer (nonconvertee)	Animal and Plant Health Inspection Service	Assistant Deputy Administrator, International and Emergency Program Staff	6/28/81	Career (Designated as an SES Career Reserved Position)	
David S. Campbell	Animal and Plant Health Inspection Service	Assistant Deputy Administrator for National Programs, Plant Protection and Quarantine	2/1/81	Career	Career Reserved
Charles Nigro	Animal and Plant Health Inspection Service	Director, Northeast Region, Plant Protection Quarantine	8/10/80	Career	Career Reserved
Donald F. Husnik	Animal and Plant Health Inspection Service	Director, Southeast Region, Plant Protection and Quarantine	2/22/81	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
John T. Atwell	Animal and Plant Health Inspection Service	Deputy Administrator, Veterinary Services	2/18/81	Career	General
Kenneth R. Hook	Animal and Plant Health Inspection Service	Associate Deputy Administrator, Veterinary Services	4/5/81	Career	General
Paul Becton	Animal and Plant Health Inspection Service	Director, National Brucellosis Eradication Program, Veterinary Services	9/25/80	Career	Career Reserved
Milton Tillery	Animal and Plant Health Inspection Service	Director, National Program Planning Staff, Veterinary Services	7/12/79	Career	Career Reserved
Noryan L. Meyer	Animal and Plant Health Inspection Service	Assistant Deputy Administrator, International Programs	9/16/73	Career	Career Reserved
Euclid Sharman	Animal and Plant Health Inspection Service	Assistant Deputy Administrator, Animal Health Program, Veterinary Services	11/2/80	Career	Career Reserved
Gerald Fichtner	Animal and Plant Health Inspection Service	Director, Northern Region, Veterinary Services	7/12/79	Career	Career Reserved
John C. Jefferies	Animal and Plant Health Inspection Service	Director, Southeast Region, Veterinary Services	11/16/80	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Marion Meadows	Animal and Plant Health Inspection Service	Co.-Director, U.S. Mexico Screwworm Commission	7/12/79	Career	Career Reserved
Martin F. Fitzpatrick	Office of Transportation	Director	2/17/81	Noncareer	General
Billy H. Jones	Packers and Stockyards Administration	Administrator	10/4/81	Noncareer	General
James L. Smith	Packers and Stockyards Administration	Deputy Administrator	4/20/80	Career	General
David R. Galliart	Federal Grain Inspection Service	Deputy Administrator, Program Operations	1/29/78	Career	General
David C. Mangum	Federal Grain Inspection Service	Assistant Deputy Administrator, Program Operations (Staff)	7/1/79	Career	Career Reserved
Leslie E. Malone	Federal Grain Inspection Service	Assistant Deputy Administrator, Program Operations (Field)	7/1/79	Career	Career Reserved
Donald L. Houston	Food Safety and Inspection Service	Administrator	9/20/81	Career	General
John McCutcheon	Food Safety and Inspection Service	Director, Policy and Program Planning	8/10/80	Career	General
Joseph A. Powers	Food Safety and Inspection Service	Deputy Administrator, Administrative Management	8/28/77	Career	Career Reserved
Milton D. Ray	Food Safety and Inspection Service	Assistant Deputy Administrator, Administrative Mangement	10/23/77	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Ronald E. Engel	Food Safety and Inspection Service	Deputy Administrator, Science	9/16/79	Career	Career Reserved
Thomas Murtishaw	Food Safety and Inspection Service	Assistant Deputy Administrator, Science	7/27/80	Career	Career Reserved
Luverne L. Gast	Food Safety and Inspection Service	Deputy Administrator, Compliance	9/16/79	Career	General
Milton Goodman	Food Safety and Inspection Service	Assistant Deputy Administrator, Compliance	3/9/80	Career	Career Reserved
Victor H. Berry	Food Safety and Inspection Service	Deputy Administrator, Meat & Poultry Inspection, Field Operations	9/16/79	Career	General
Merlin Nelson	Food Safety and Inspection Service	Associate Deputy Administrator, Meat & Poultry Inspection, Field Operations	4/6/80	Career	General
Arnold Gieseman	Food Safety and Inspection Service	Assistant Deputy Administrator, Technical Services	10/19/80	Career	Career Reserved
Wilson S. Horne	Food Safety and Inspection Service	Director, Field Operations, Meat & Poultry Inspection	1/25/81	Career	Career Reserved
Maurice McNay	Food Safety and Inspection Service	Regional Director, Northeast Region	11/2/80	Career	Career Reserved
Kenneth McDougall	Food Safety and Inspection Service	Regional Director, North Central Region	10/19/80	Career	Career Reserved
Fred J. Fullerton	Food Safety and Inspection Service	Regional Director, Southeast Region	7/13/79	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Newman B. Isom	Food Safety and Inspection Service	Regional Director, Southwest Region	7/13/80	Career	Career Reserved
Ronald J. Prucha	Food Safety and Inspection Service	Regional Director, Western Region	4/1/81	Career	Career Reserved
Everett G. Rank, Jr.	Agricultural Stabilization and Conservation Service	Administrator	3/9/81	Noncareer	General
Chauncey H. Leggett, Jr.	Agricultural Stabilization and Conservation Service	Associate Administrator	3/11/81	Noncareer	General
Edward Hews	Agricultural Stabilization and Conservation Service	Deputy Administrator, Planning and Program Development	1/10/82	Noncareer	General
Lester LeCompte	Agricultural Stabilization and Conservation Service	Accounting Officer	10/4/81	Career	Career Reserved
Clarence L. Tardy	Agricultural Stabilization and Conservation Service	Deputy Administrator, State and County Operations	3/11/81	Noncareer	General
Roy Cozart	Agricultural Stabilization and Conservation Service	Assistant Deputy Administrator, State and County Operations	7/26/81	Noncareer	General
Merritt W. Sprague	Agricultural Stabilization and Conservation Service	Deputy Administrator, Commodity Operations	3/23/81	Noncareer	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Merrill D. Marxman	Agricultural Stabilization and Conservation Service	Assistant Deputy Administrator, Commodity Operations	1/3/82	Noncareer	General
Chipman C. Bull	Agricultural Stabilization and Conservation Service	Assistant Deputy Administrator, Commodity Operations	6/7/81	Career	General
Fred T. Plybon	Agricultural Stabilization and Conservation Service	Director, Management Field Office	6/17/79	Career	General
Grant B. Buntrock	Agricultural Stabilization and Conservation Service	Director, Cotton, Grain, and Rice Price Support Division	3/7/82	Career	General
Robert R. Stansberry	Agricultural Stabilization and Conservation Service	Director, Commodity Operations Division	3/7/82	Career	General
Richard A. Smith	Foreign Agricultural Service	Administrator	4/13/81	Career	General
Leo V. Mayer	Foreign Agricultural Service	Associate Administrator	10/18/81	Noncareer	General
Alan T. Tracy	Foreign Agricultural Service	Associate Administrator and General Sales Manager	5/3/81	Noncareer	General
Rolland E. Anderson, Jr.	Foreign Agricultural Service	Assistant Administrator, International Trade Policy	12/13/81	Career	General
Ernest Koenig	Foreign Agricultural Service	Deputy Assistant Administrator, International Trade Policy	1/24/82	Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
George Rossmiller	Foreign Agricultural Service	Director, Planning and Analysis	12/13/81	Career	General
Donald Novotny	Foreign Agricultural Service	Director, Grain and Feed Division	7/13/79	Career	Career Reserved
Philip Mackie	Foreign Agricultural Service	Director, Oilseeds and Products Division	7/13/79	Career	Career Reserved
Gilbert Sindelar	Foreign Agricultural Service	Director, Sugar and Horticultural and Tropical Products Division	7/13/79	Career	Career Reserved
Glenn R. Samson	Foreign Agricultural Service	Director, Tobacco, Cotton and Seeds Division	11/2/80	Career	Career Reserved
Louis G. Davis	Foreign Agricultural Service	Assistant Administrator, Management	12/13/81	Career	Career Reserved
Richard Cannon	Foreign Agricultural Service	Assistant Administrator, International Agricultural Statistics	12/13/81	Career	General
Jimmy D. Murphy	Foreign Agricultural Service	Deputy Assistant Administrator, International Agricultural Statistics	12/13/81	Career	Career Reserved
Larry F. Thomasson	Foreign Agricultural Service	Assistant Administrator, Foreign Agricultural Affairs	2/3/74	Career	General
George J. Dietz	Foreign Agricultural Service	Agricultural Counselor, Caracas	8/29/76	Career	General
Clarence Jean	Foreign Agricultural Service	Agricultural Counselor, The Netherlands	1/27/80	Career	General
Dudley G. Williams	Foreign Agricultural Service	Agricultural Counselor, Tokyo, Japan	9/24/78	Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Turner L. Oyloe	Foreign Agricultural Service	Agricultural Counselor, London, England	9/20/81	Career	General
Alan W. Trick	Foreign Agricultural Service	Agricultural Attache, Jakarta	9/26/76	Career	General
Dale Douglas	Foreign Agricultural Service	Agricultural Counselor, Bonn, Germany	7/13/79	Career	General
Edmund L. Nichols	Foreign Agricultural Service	Agricultural Counselor, Paris, France	4/22/79	Career	General
Wayne W. Sharpe	Foreign Agricultural Service	Agricultural Counselor, USEC, Brussels, Belguim	1/13/80	Career	General
Brice K. Meeker	Foreign Agricultural Service	Agricultural Attache, Canberra, Australia	5/21/78	Career	General
John Montel	Foreign Agricultural Service	Agricultural Counselor, Mexico City, Mexico	1/27/80	Career	General
Clarence M. Gordy	Foreign Agricultural Service	Assistant Sales Manager	6/14/81	Career	General
Jimmy Minyard	Foreign Agricultural Service	Assistant Administrator, Foreign Market Development	7/13/79	Career	General
Joan S. Wallace	Office of International Cooperation and Development	Administrator	7/6/81	Career	General
Melvin Sims	Federal Crop Insurance Corporation	Chairman	5/17/81	Noncareer	General
Wayne Fletcher	Federal Crop Insurance Corporation	President	5/3/81	Noncareer	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Stephen B. Dewhurst	Office of Budget and Program Analysis	Director	7/13/79	Career	General
John Fedkiw	Office of Budget and Program Analysis	Associate Director for Renewable Resources and Special Studies	12/28/80	Career	General
Lawrence Wachs	Office of Budget and Program Analysis	Associate Director for Budget, Legislation and Program Review	12/28/80	Career	General
Robert E. Sherman	Office of Budget and Program Analysis	Deputy Director, Budget, Legislation & Regulatory Systems	2/7/82	Career	General
G. William Hoagland	Office of Budget and Program Analysis	Deputy Director, Program Analysis	11/22/81	Noncareer	General
John E. Lee, Jr.	Economics Research Service	Director, National Economic Analysis Division	10/10/76	Career	Career Reserved
Thomas White	Economics Research Service	Director, International Economics Division	8/18/80	Career	Career Reserved
Melvin L. Cotner	Economics Research Service	Director, Natural Resource Economics Division	4/14/74	Career	Career Reserved
Kenneth L. Deavers	Economics Research Service	Director, Economics Development Division	1/25/77	Career	Career Reserved
William E. Kibler	Statistical Reporting Service	Deputy Administrator for Statistics	11/9/75	Career	Career Reserved
Donald W. Barrowman	Statistical Reporting Service	Director, Estimates Division	6/29/80	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Charles E. Caudill	Statistical Reporting Service	Director, Statistical Research Division	11/9/75	Career	Career Reserved
Wilbert Walther	Statistical Reporting Service	Director, Survey Division	10/19/80	Career	Career Reserved
Raymond R. Hancock	Statistical Reporting Service	Director, State Statistical Division	10/5/80	Career	Career Reserved
Allan S. Johnson	Economics Management Staff	Deputy Administrator for Administration	6/29/80	Career	Career Reserved
Terry Barr	World Agricultural Outlook Board	Deputy Chairperson, Research, Weather and Remote Sensing	6/1/80	Career	Career Reserved
Anson R. Bertrand	Science and Education	Director, Science and Education	7/10/78	Career	General
John G. Stovall	Science and Education	Deputy Assistant Director, Joint Planning and Evaluation	7/13/79	Career	General
Ernest L. Corley	Science and Education	Chief, Program Planning Staff	9/24/78	Career	General
Clifford W. Hesseltine	Science and Education	Chief, Fermentation Laboratory, Northern Regional Research Center	10/26/75	Career	Career Reserved
Phillip A. O'Berry	Science and Education	Director, National Animal Disease Center	3/17/74	Career	Career Reserved
Virgil A. Johnson (nonconvertee)	Science and Education	Research Leader, Wheat Research (Designated as an SES Career Reserved Position)	2/1/76	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Paul A. Putnam	Science and Education	Director, Beltsville Agricultural Research Center (BARC)	6/29/80	Career	Career Reserved
Russell L. Steere	Science and Education	Chief, Plant Virology Laboratory, BARC	8/31/75	Career	Career Reserved
Tien C. Tso	Science and Education	Chief, Tobacco Laboratory, BARC	3/27/77	Career	Career Reserved
Herbert Rothbart	Science and Education	Director, Eastern Regional Research Center	11/2/80	Career	Career Reserved
Jerry J. Callis	Science and Education	Director, Plum Island Animal Disease Center	1/3/73	Career	Career Reserved
Arthur I. Morgan	Science and Education	Director, Western Regional Research Center	1/21/73	Career	Career Reserved
Jan VanSchilfgaarde	Science and Education	Director, U.S. Salinity Laboratory	9/3/72	Career	Career Reserved
Leonard Jurd	Science and Education	Research Leader, Natural Products Chemistry Laboratory	2/13/77	Career	Career Reserved
Edward B. Knipling	Science and Education	Area Director, California-Hawaii-Nevada Area	7/30/78	Career	Career Reserved
Dean F. Davis	Science and Education	Director, Florida-Antilles Area	1/5/75	Career	Career Reserved
David Zimmer	Science and Education	Director, Athens, Georgia Area	9/7/80	Career	Career Reserved
Joseph R. Johnston	Science and Education	Director, Oklahoma-Texas Area	1/5/75	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Glenn R. Burton (nonconvertee)	Science and Education	Research Leader, Forage and Turf Research (Designated as an SES Career Reserved Position)	7/9/72	Career	Career Reserved
Donald E. Moreland	Science and Education	Research Leader, Physiology and Photosynthesis Research	8/13/78	Career	Career Reserved
Donald E. Wiedhaas	Science and Education	Director, Insects Affecting Man Laboratory	8/13/78	Career	Career Reserved
Arthur H. Nies	Science and Education	Deputy Director for Administrative Management	7/23/78	Career	Career Reserved
Harold L. Barrows	Science and Education	Chief, Soil, Water and Air Sciences Staff	4/27/75	Career	Career Reserved
Thomas Army	Science and Education	Assistant Administrator, National Programs Staff	9/7/80	Career	Career Reserved
Marshall D. Levin	Science and Education	Chief, Crop Protection Sciences	7/13/79	Career	Career Reserved
Vincent P. Maier	Science and Education	Research Leader, Fruit and Vegetable Chemistry Research	7/30/78	Career	Career Reserved
Hamish Munro	Science and Education	Director, Human Nutrition Laboratory	3/21/80	Career	Career Reserved
Richard R. Rankin	Science and Education	Associate Deputy Director, Administrative Management	5/18/80	Career	Career Reserved
Howerde Sauberlich	Science and Education	Leader, Military Nutrition Research Program	6/22/80	Career	General
Richard Dunkle	Science and Education	Pesticide Management Coordinator	1/10/82	Career	Career Reserved

Question: How many additional Senior Executive Service slots were requested for fiscal year 1982 and 1983?

Answer: USDA asked OPM for 63 additional SES slots in FY 82 and 64 additional SES slots for FY 83. This would have raised our total number of slots from 395 to 458 and 459 respectively. Instead, OPM allocated 10 additional slots to us for FY 82 (for a total of 405). It was reduced back to 395 for FY 83.

Question: How do your total Senior Executive Service slots compare with other Cabinet level agencies?

Answer: The information follows:

SES Slots in Cabinet Level Agencies

FY 82*

AGENCY		SLOTS
Agriculture		405
Commerce		528
Defense		
- Office of the Secretary	435	
- Air Force	223	
- Army	357	
- Navy	448	1463
Education		88
Energy		630
Health and Human Services		650
Housing and Urban Development		137
Interior		298
Justice		270
Labor		197
State		107
Transportation		439
Treasury		575
	TOTAL	5787

*Based on OPM records. Total number may include OPM mobility slots.

Agriculture ranks 7th among 13 agencies in total SES slots.

Question: Please provide for the record an update of the listing of recipients of bonuses and the amounts received.

Answer: The information follows:

FY 81 SES Bonus Recipients*

Agency	Name	Bonus Amount
AMS	William T. Manley	$ 5,512
APHIS	John E. Carson	$ 5,512
	Harvey Ford, Jr.	$ 8,018
	William Helms	$ 5,512
	James O. Lee, Jr.	$ 5,512
	Larry Slagle	$ 5,512
ASCS	Fred T. Plybon, Jr.	$ 5,512
FAS	Richard Cannon	$ 5,512
	Donald Novotny	$ 8,018
FmHA	Dwight O. Calhoun	$ 8,018
FNS	David Alspach	$ 5,512
	Andrew Hornsby	$ 5,512
FS	J. Lamar Beasley	$ 5,512
	Robert E. Buckman	$ 5,512
	William L. Evans	$ 5,512
	Junior B. Hilmon	$ 5,512
	Raymond M. Housley	$ 5,512
	Douglas R. Leisz	$ 8,018
	Jerome A. Miles	$ 8,018
	John O. Ohman	$ 5,512
	R. Max Peterson	$10,022
	Allan J. Schacht	$ 5,512
	Jeff Sirmon	$ 5,512
FSIS	Luverne L. Gast	$ 5,512
	Donald L. Houston	$10,022
	Merlin Nelson	$ 5.512
	Ronald J. Prucha	$ 5,512
O&F	Frank Gearde	$ 5,512
	Clyde McShan	$ 5,512
OGC	James Hinchman	$ 9,521
OGPA	Stephen B. Dewhurst	$10,022
	Lawrence Wachs	$ 8,018
OS	J. Dawson Ahalt	$ 5,512
P&SA	James L. Smith	$ 5,512

Agency	Name	Bonus Amount
REA	Joseph S. Zoller	$ 5,512
SCS	Cletus Gillman	$ 5,512
	Joseph W. Haas	$ 5,512
	Benny Martin	$ 5,512
	Kenneth L. Williams	$ 5,512
SRS	Charles E. Caudill	$ 5,512
S&E	Thomas Army	$ 5,512
	Anson Bertrand	$ 5,512
	Mary E. Carter	$ 5,512
	Ernest L. Corley	$ 8,018
	HC Cox	$ 5,512
	Paul Fitzgerald	$ 5,512
	Leonard Jurd	$ 5,512
	Edgar Kendrick	$ 8,018
	Terry B. Kinney	$ 5,512
	Edward Miller	$ 9,521
	Russell Steere	$ 5,512
	Jan Van Schilfgaarde	$ 5,512

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*Bonuses rewarded FY 81 performance, but were paid in FY 82.

MERIT PAY SYSTEM

You have indicated that the Departmental Merit Pay System would become fully operational on October 5, 1981, and that the first merit payout would be at that time.

Question: Please provide a profile of the recipients of merit pay and the average amount.

Answer: The information follows:

FY 1982 PERFORMANCE APPRAISAL / MERIT INCREASE BY GRADE FOR GM EMPLOYEES
FOR USDA

PERFORMANCE	**** G R A D E 13 ****			**** G R A D E 14 ****			**** G R A D E 15 ****			**** T O T A L S ****		
APPRAISAL RANGES	NO EMPS 1/	% 2/	AMI 3/	NO EMPS	%	AMI	NO EMPS	%	AMI	NO EMPS	%	AMI
1.0 - 1.9	5	.00	.00	1	.00	.00	0	.00	.00	6	.00	.00
2.0 - 2.9	46	.01	.00	18	.01	.00	3	.00	.00	67	.01	.00
3.0 - 3.4	912	.17	293.33	318	.12	344.22	86	.07	415.59	1316	.15	313.61
3.5 - 3.9	2001	.38	339.35	887	.35	397.48	332	.29	474.25	3220	.36	369.27
4.0 - 4.4	1735	.33	370.49	986	.39	439.03	505	.43	519.69	3226	.36	414.79
4.5 - 4.9	545	.10	404.37	319	.12	469.87	223	.19	558.23	1087	.12	455.16
5.0 -	73	.01	428.46	26	.01	509.48	13	.01	575.72	112	.01	464.36
TOTAL EMPLOYEES	5317	.59	346.25	2555	.28	414.10	1162	.13	505.67	9034	100	391.37

Merit pay determinations in USDA are based upon an employee's performance on the job. In this system, the supervisor's appraisal of an employee's performance is translated into a merit increase through an automated process. A five point rating scale is used to appraise performance. Merit increases are denied where performance falls below the acceptable (3) level.

Performance Appraisal Scale

1. Unacceptable - Fails to meet established performance standards.
2. Minimally Acceptable - Meets performance standards at a level lower than expected.
3. Acceptable - Meets performance standards at level expected.
4. Exceeds Acceptable - Exceeds performance standards established at the acceptable level.
5. Outstanding - Exceeds performance standards at a level that is high enough to deserve special commendation.

1/ Number of Employees   2/ % of Employees in that category   3/ Average merit increase

Question: How many disputes involving employees in merit pay did you have during the past year?

Answer: During the past year, 17 employees disputed their individual performance ratings.

Question: What were the results of these disputes?

The results of the 17 disputes were as follows:

- Eight employees received a .2 average increase in their overall performance ratings. The resulting increase in merit pay averaged $154.
- Six employees retained their initial performance ratings.
- Three disputes are currently pending resolution.

AGENCY USER TASK FORCE

Question: In your statement you indicated that the Task Force established levels for each centrally operated activity. Would you please provide these levels for the record together with budgetary impact.

Answer: The FY 1983 President's Budget as submitted to Congress reflects the budgetary levels established by the Agency User Task Force for the Working Capital Fund. The levels are as follows:

Project	FY 1983 Estimate
Supply and Other Central Services	$7,506,000
Reproduction Services	6,074,000
Motion Picture	3,229,000
National Finance Center	38,919,000
ADP	34,146,000
Total obligations	$89,874,000

This budget is based on the user agencies' estimates of their own needs and their level of demand for central services in fiscal year 1983. Although there is an increase in total, the estimates reflect a lower unit cost for services provided. The increase is a result of higher demand by user agencies. The Working Capital Fund budget has historically been based on very rough estimates of demand. We are attempting to develop better estimates of agency demand by bringing agencies into the budget process through the Agency User Task Force.

EQUAL EMPLOYMENT OPPORTUNITY

Question: It is my understanding that an analysis of barriers impacting negatively on affirmative actions has recently been completed. Please provide this for the record.

Answer: The following list reflects significant policies or practices which are controlled by individual USDA agencies and which have acted as barriers to affirmative action within the Department.

1. The use of civil service status requirements on all announcements. This is the most prevalent barrier within the Department.

2. Failure to develop 'bridge' positions and upward mobility positions.

3. The use of unnecessary educational or other degree requirements which exceed those required in X-118 qualifications standards.

4. Flaws in selection procedures, for example, rating panels which exclude minorities and women, rating panels which do not give 'proper value' to the experience and qualifications of minorities and women, failure to interview candidates, failure to evaluate employees in a timely fashion.

5. Failure to use varying grades in a job series when staffing a new or existing unit.

6. Failure to utilize a bilingual or a bicultural certification for public contact jobs in areas where there are sizeable non-English speaking populations.

7. Lack of effective mechanisms to ensure the use of minority and female recruitment sources.

8. Failure to widely disseminate training opportunities.

9. Lack of use of special appointments.

Question: You have also identified strategies for eliminating them. Please outline these strategies for the record.

Answer: USDA's Office of Minority Affairs has recommended to Departmental agencies that they utilize the following strategy for analyzing and eliminating barriers to affirmative action.

> Barrier analysis is a critical part of Affirmative Action Planning. Accordingly, in order for agencies to be most effective in eradicating barriers to affirmative action, the following general rules are suggested:
>
> 1. Select barriers that are within the agency's control.
> 2. Select barriers that can be eliminated during the fiscal year.
> 3. Select barriers which affect mainstream, relatively populous occupations.
> 4. Develop actions and timetables designed to eliminate each barrier identified. Each action should be accompained by a statement of anticipated results.

Specific actions include the following:

1. Develop a list of areas in which minorities and women are considered to be underrepresented (i.e., occupational series, grade levels, training, details, temporary promotions, awards, etc.)
2. Select from this list those areas which fit the criteria established in the previously listed four general rules.
3. List the selected areas in order of significance (major impact to minor impact).
4. Select for analysis the underrepresented area which has potentially the most significant impact on personnel.
5. Perform a review of all policies, practices, and procedures which are associated with that selected area.
6. Determine which factors limit or exclude participation of minorities and women in that particular area. Pay attention to 'added-on' qualifications or criteria which have been cited as desirable or necessary.
7. Determine the degree of relevance of those factors to productivity and to mission accomplishment.
8. If the determination performed in #7 is positive (i.e., the factor is revelant), develop alternative methods and strategies which accomplish the mission in a similar fashion but without the adverse impact.
9. If the determination performed is #7 is negative (i.e., the factor is not relevant), eliminate that factor.
10. Select the second most significant area (listed in #3) and perform steps #5, 6, 7, 8, and 9.

DATA SERVICES

Question: What affect, if any, have the tight budgetary constraints had on your automated data processing capacity?

Answer: The budgetary constraints have had different effects on each of the Departmental Computer Centers as noted below.

Fortunately the Washington Computer Center had been able to procure additional capacity in the form of a large scale IBM 3033 attached processor in response to agency requirements. This will enable the Center to be responsive through FY 1983. The present budgetary constraints forestall acquisition of any additional capacity—users being under similar constraints have been forced to cut back their demands on the Center.

The Fort Collins Computer Center is already severely constrained by budgetary restrications. Its users at the present time have exceeded the capacity of the Univac equipment on hand. Office of Information Resources Management budget restrications prevent necessary procurement. Prospects for FY 1983 are bleak; Forest Service and Animal and Plant Health Inspection Service will have to restrain their use of the Computer Center's facilities if the latter cannot be expanded.

The Kansas City Computer Center foresees severe impacts in FY 1982. Agencies are requiring that obsolete equipment be maintained in the Center beyond the Office of Information Resources Management's projected dates. Coupled with additonal equipment procured in response to agency plans, it is likely reprogramming of funds or other budgetary measures will have to be taken to continue the smooth operation of the Center through FY 1982. FY 1983 will see the Computer Center cut back its response to agencies' demands if budgetary constraints continue or other support is not found.

Question: Are backlogs still occuring in the processing of loan payments, etc?

Answer: The Farmers Home Administration has made several management improvements to speed up the obligation and issuance of loan checks, especially farm production-type loans. To improve the ability of field offices to process the increased loan volume in the spring, the following actions have been taken.

1. The Administrator has notified the State Directors that farm production-type loans should receive highest priority in processing during the spring planning and planting season.

2. State Directors have been authorized to utilize emergency loan temporary employees to the maximum.

3. The FmHA National Office provides assistance to State Directors in obtaining additional personnel from other states when backlogs appear.

4. Training meetings were conducted in states anticipating large numbers of loan applications. Correct processing of applications and organization and processing techniques to speed up application processing are emphasized.

5. The FmHA National Office has established a monitoring system to track the number of applications received, and the number processed, so that potential problems can be identified early and corrective action taken.

The FmHA's Finance Office in St. Louis has implemented special procedures to speed up processing:

1. Modifications in internal procedures and changes in the computer processing reduced the normal processing time for farm production and emergency loans from 7 working days to 3 working days in the Finance Office. This does not include mail time to and from FmHA field offices.

2. Discrepancies in processing are corrected on a high priority basis, and the telephone is used to resolve discrepancies with field offices, rather than the mail mode.

3. An interim upgrading of the computer equipment has been accomplished, providing faster and larger capacity for loan processing. This interim measure should meet FmHA's computer needs until the current system is converted to a

large-scale IBM system at the USDA Computer Center in Kansas City, Missouri.

4. Seven State Offices are using computer terminals for processing obligations and check requests. This procedure reduces the processing time by 3 days. It is planned for this system to be expanded to more states after computer equipment upgrading is accomplished.

These steps should enable FmHA to process obligations and loan checks on a timely basis during the spring lending season of 1982.

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

DISTRIBUTION OF PUBLICATIONS

Question: Approximately how many publications (titles) did USDA put out in fiscal year 1981, estimated for fiscal year 1982 and projected for fiscal year 1983?

Answer: In fiscal year 1981 there were 916 (530 new and revised, plus 368 reprints, plus 18 printed in the USDA plant), including 153 issues of periodicals. The estimate for fiscal year 1982 is 824, and the projection for fiscal year 1983 is 732, based on expectation of approximately 10 percent reduction per year as reported to Office of Management and Budget.

Question: How many publications were distributed in fiscal year 1981, estimated for fiscal year 1982 and projected for fiscal year 1983? What is the total cost associated for each year? Please break this down by distribution through the Consumer Information Center and Members of Congress.

Answer:

Publications Distributed

	Quantity (millions)	Total Printing Cost (millions)1/
FY '81	33.9	$10.8
Est. FY '82	30.5	10.7
Est. FY '83	27.0	10.1

Consumer Information Center Distribution

	Quantity (millions)	Cost2/
FY '81	3.3	$946,100
Est. FY '82	3.0	851,100
Est. FY '83	0	0 3/

C Congressional Distribution

	Quantity (millions)	Cost4/
FY '81	2.0	$200,000
Est. FY '82	3.0	300,000
Est. FY '83	2.5	250,000

1/ Includes both Departmental and Agency series publications as well as regional publications. These figures are based on an estimate that 40 percent of our total printing costs are for publications.

2/ Per bills submitted under Consumer Information Centers 2 year delayed billing formula to cover mailing and handling.

3/ We expect no funds to be available in FY 1983 budget for Consumer Information Center distribution.

4/ Cost of reprints of only those titles appearing on Congressional lists.

Question: You mentioned in your statement a reduction of ten staff years. How many of these will be met through attrition and how many eliminated?

Answer: Staff years for the Office of Governmental and Public Affairs for fiscal year 1982 are projected at 179. The staff year allowance for fiscal year 1983 is 169. The average attrition rate for this office is 7.3 percent, therefore normal attrition would reduce employment by the required ten staff years.

AGRICULTURE YEARBOOK

Question: What was the cost of producing the 1981 yearbook?

Answer: The cost of producing the 1981 Yearbook is estimated at $483,750. This is an estimated cost because GPO has not yet given us a final bill.

Question: What is the estimated cost of producing the 1982 Yearbook?

Answer: The estimated cost of producing the 1982 Yearbook is $478,000.

Question: What percentage of that amount is for printing, design, personnel, etc.?

Answer: Printing costs for the 1982 Yearbook are expected to total about 83 percent of the total outlay. Design costs are expected to total about 3 percent, and personnel costs for the Editor and Assistant Editor are expected to amount to about 14 percent.

Question: Are plans in progress for a 1982 Yearbook?

Answer: Plans are in progress to select a subject for the 1982 Yearbook and to move ahead with production.

Question: Are any cutbacks or reductions planned for the 1982 Yearbook? If so, what are they?

Answer: We have made reductions over the years in pages, in color, and in covers for the yearbook. No further cutbacks or reductions are planned for the 1982 Yearbook. Possibly lower printing costs in the commercial sector could bring the total cost down.

AUDIOVISUALS

Question: How much of your budget is spent on audiovisual products?

Answer: Governmental and Public Affairs spends very little of its budget for audiovisual products. For fiscal year 1982, it is expected the total will be no more than $7,000. This would be for a "People on the Farm" series slide set to help fill requests for materials about agriculture from high school teachers and the general public.

Governmental and Public Affairs has three working captial fund operations that produce audio visual products to one extent or another and are reimbursed for the production work by the contracting agencies.

Question: Please explain any reductions or cutbacks in this area.

Answer: In direct expenditures from the Governmental and Public Affairs budget, the current level of spending for audiovisual products compared with fiscal year 1981 is about half....from two "People on the Farm" series slide sets at a cost of $14,000 to one slide set at a cost of $7,000.

Expenditures by other USDA agencies through the working capital centers are expected to be reduced this fiscal year compared with previous years, partially because of the OMB moratorium on publications and audiovisual materials and partially because of reduced budgets.

RADIO AND TELEVISION

It was indicated in the Explanatory Notes that the number of radio and television networks covering USDA is increasing substantially.

Question: What was the total cost of radio and television in fiscal year 1982?

Answer: The total cost of radio and television in fiscal year 1982 will be $598,187.

Question: What is the anticipated cost for fiscal year 1983?

Answer: The anticipated cost for radio and television for fiscal year 1983 is $671,816. The majority of this increase is in space and facilities costs, increasing from $9.05 to $20.02 per square foot.

INTERGOVERNMENTAL AFFAIRS

Question: How many staff years were devoted to Intergovernmental Affairs activities in fiscal year 1981 and estimated for fiscal year 1982?

Answer: Five staff years were devoted to Intergovernmental Affairs activities during fiscal year 1981. Fiscal year 1982 staff years are estimated at five .

Question: What was the total cost of Intergovernmental Affairs activities for fiscal year 1981 and what is estimated for fiscal year 1982.

Answer: The total fiscal year 1981 costs for Intergovernmental Affairs activities was $344,560 in appropriated funds and $100,000 in working capital funds. The fiscal year 1982 estimate is $322,000 in appropriated funds. We presently estimate $75,000 in reimbursable funds.

CONGRESSIONAL AFFAIRS

Question: How many staff years were devoted to Congressional Affairs in fiscal year 1981 and how many estimated for fiscal year 1982?

Answer: Nine staff years were devoted to Congressional Affairs activities during fiscal year 1981. The fiscal year 1982 estimated staff years are nine.

Question: What is the required funding associated with Congressional Affairs for fiscal year 1981, and 1982?

Answer: The fiscal year 1981 funding level for Congressional Affairs was $405,512. The fiscal year 1982 level is $412,000.

Question: Please provide a table showing staff years and costs associated with Congressional Affairs activities for each agency for fiscal year 1982.

Answer: The fiscal year 1982 staff years and costs associated with Congressional Affairs activities for each USDA agencies are as follows:

	Staff Years	Cost (actual dollars)
Agricultural Stabilization and Conservation Service	1.09	53,689.
Federal Crop Insurance Corporation	.50	22,460.
Foreign Agricultural Service	.67	30,288.
Office of International Cooperation and Development	.27	12,360.

	Staff Years	Cost (actual dollars)
Farmers Home Administration	1.18	53,831.
Rural Electrification Administration	.41	18,540.
Animal and Plant Health Inspection Service	.50	22,660.
Food Safety and Inspection Service	.36	16,480.
Agricultural Marketing Service	.31	4,008.
Packers and Stockyards Administration	.12	5,356.
Office of Transportation	.13	5,768.
Agricultural Cooperative Service	.11	4,944.
Federal Grain Inspection Service	.13	5,768.
Food and Nutrition Service	.76	34,608.
Office of Consumer Advisor	.05	2,060.
Human Nutrition Information Service	.05	2,060.
Forest Service	.77	35,020.
Soil Conservation Service	.77	35,020.
Economics	.27	12,360.
Science and Education Administration	.33	14,832.
Office of Inspector General	.13	5,768.
Office of General Counsel	.09	4,120.
	9	$412,000.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

DISTRIBUTION OF PUBLICATIONS THROUGH THE CONSUMER INFORMATION CENTER

You are proposing to discontinue the distribution of agricultural publications through the Consumer Information Center.

Question: How many of these free government publications were requested through Consumer Information Center last year?

Answer: 3.3 million publications were requested through Consumer Information Center last year.

Question: Will our rural communities still have access to these publications? And if so, how?

Answer: Yes, publications will still be available by individual request to the Department, through county agents of the Extension Service, and through distribution by Members of Congress using Congressional lists.

Question: What is the average cost for one of these publications?

Answer: The average cost approximates 7 cents for printing and 21 cents for postage and handling, for a total of 28 cents.

OFFICE OF THE GENERAL COUNSEL

QUESTIONS SUBMITTED BY SENATOR COCHRAN

PERSONNEL

Question: What is the cost associated with personnel?

Answer: Of our FY 1983 request, 83 percent is allocated to personnel costs. We have requested $10,784,000 and $1,052,000 for benefits. Thus our total personnel cost would be $11,836,000.

Question: Please provide a table showing a breakout of personnel with associated costs, i.e., lawyers, legal aides, clerical, etc.

Answer: (The information follows:)

OGC PERSONNEL AND COSTS*

Category of Employee	Number of Employees	Total Personnel Cost
Attorneys	217	$10,241,400
Paralegals/ Documents Examiners	38	830,500
Clerical	93	1,670,100
	348	$12,742,000

* Includes reimbursements.

Question: Are you still experiencing the loss of good lawyers to other government agencies or to the private sector? If so, to what extent? Why?

Answer: During calendar year 1981 we experienced the loss of 20 attorneys from the Washington Office and one attorney from our field offices. Four attorneys retired, five went to other governmental positions, and the other twelve left for positions in the private sector. It should be noted that six of these attorneys left during January 1981 and that some of the subsequent departures were individuals who had held Schedule C positions in the previous Administration. In addition, several of those leaving were women lawyers whose spouse had taken a new job in another area of the country.

While it is difficult to generalize regarding the reasons for attrition, we do face severe salary competition from the private sector. Congress' recent action in raising the pay cap should be helpful to our competitive position in retaining senior, experienced attorneys. By pursuing a promotion policy that encourages and recognizes outstanding performance, and a management policy that places major responsibilities with our best attorneys, I hope to achieve a working environment that will provide an incentive for our most capable attorneys to stay with the office. In this regard, it is encouraging that the rate of attrition slowed in the latter part of last year, and, in fact there have been no attorney resignations in the first three months of 1982.

Question: What is the average grade for attorneys in your office as compared with other legal offices in government?

Answer: The average grade level for general schedule OGC attorneys is 13.5. Contact with legal offices in several other government agencies resulted in estimates of an average grade of 13.7 for Department of Interior attorneys, and a rounded average of 14 for attorneys in the Departments of Justice and Labor, the Federal Trade Commission, the Environmental Protection Agency, and the Office of Personnel Management.

POLISH DEBT

Question: Was your office involved in the rescheduling of part of Poland's debts to the Commodity Credit Corporation? Please explain.

Answer: On April 27, 1981, the United States along with Poland's other Western creditor nations agreed to reschedule certain Polish debt payments coming due during calendar year 1981. This is the only rescheduling of Polish debt that has occurred. The principal participants in those negotiations were the Departments of Treasury and State.

After the April 27, 1981 agreement, the Office of General Counsel drafted, in cooperation with the Agricultural Stabilization and Conservation Service, a bilateral agreement between the U.S. and Poland and an agreement between Commodity Credit Corporation and Poland's Bank Handlowy w. Warszawie which implemented the April 27 agreement.

SOVIET UNION EMBARGO

Question: Will you please explain the Office of General Counsel's role in connection with the restriction on export of agricultural commodities to the Soviet Union?

Answer: The Office of General Counsel provided legal services with respect to all aspects of the embargo as it related to agricultural commodities. Prior to the imposition of export controls on January 4, 1980, this Office provided oral and written legal advice to policy officials in the Department and the White House concerning the authority of the Government to: (1) impose export controls on agricultural commodities; (2) monitor export sales of agricultural commodities; and (3) take actions designed to offset the impact of the embargo on the agricultural sector of the economy. Following the announcement of the embargo, this Office continued to work closely with the administrative agencies of the Department to formulate and implement offsetting actions, such as the purchase of contract rights from exporters, open market purchases of wheat and corn, and modification of the farmer-held reserve. In particular, this Office was given the primary responsibility for negotiating and drafting the agreement under which the Commodity Credit Corporation purchased the contract rights to receive approximately 14 million tons of grain, soybeans, and soybean products that were originally destined for the Soviet Union.

On April 24, 1981, the Office of General Counsel worked with the White House Counsel's office to implement President Reagan's lifting of the embargo.

CROP INSURANCE

Question: Please describe the type of assistance you have provided in connection with the Federal Crop Insurance Corporation.

Answer: The Office of General Counsel provides a full range of legal services to the Federal Crop Insurance Corporation. It prepares and reviews regulations, contracts and other legal documents. For example, during the next eighteen months we will assist the Corporation in rewriting its insurance policies and negotiating individual agent sales agreements and master marketing and reinsurance agreements. The Office of General Counsel also assists the Department of Justice in representing the Corporation in litigation. There are currently about a dozen cases involving the Corporation pending in the courts. Finally, the Office of General Counsel provides both formal and informal legal advice to the Corporation and its officers on a daily basis.

FARMERS HOME ADMINISTRATION PROGRAMS

Question: Your Explanatory Notes indicate that about 50 percent of the time of the Office of the General Counsel field offices is spent on the Farmers Home Administration program. Has there been, or do you expect there to be, a substantial increase in the number of cases involving debt collection or foreclosures?

Answer: As of the beginning of calendar year, 1982, there were some 9072 claims related to FmHA programs that, because of debtor default, had been referred to the Office of General Counsel. Of these, approximately 5058 had in turn been referred to the various U.S. Attorneys offices for further handling.

A substantial percentage of these claims (6244 out of 9072) relate to actions involving some stage of default in Rural Housing loans, e.g. 4833 in foreclosure, 1000 in bankruptcy. Farmer program loans, on the other hand, numbered only 514 in foreclosure and 654 in bankruptcy. Thus, as these statistics indicate, by far the greatest number of foreclosures concern single family housing in rural communities and do not relate to farm properties or farm operating loans.

There has been an increase in bankruptcy cases. Because the U.S. Attorneys have declined to handle many of these bankruptcy cases in which USDA has an interest, an added strain has been placed on our resources, special training has been required and extra travel has been necessitated.

The FmHA has undertaken a program to avoid foreclosures, whenever possible, and OGC will likely be involved in addressing legal questions as loans are restructured, etc. We expect to continue to have claims referred to OGC for handling where the agency's efforts are unsuccessful.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

Many problems have arisen in the administration of the new Federal Crop Insurance Program. In my state I have had many complaints from farmers who felt they had more insurance or coverage than turned out to be the case.

Question: How involved have you been in straightening out the mess that seemed to exist? Would you outline just what steps you have taken so far?

Answer: The Office of General Counsel was not aware of any complaints from farmers in North Dakota who felt they had more insurance than turned out to be the case and has not been involved in any efforts to address those complaints. The Federal Crop Insurance Corporation advises us that it is aware of such complaints and it has exchanged correspondence with your office on that subject. Representatives of the Office of General Counsel will explore the matter in detail with representatives of the Corporation as soon as possible and will provide the Corporation any assistance it can in resolving the issue.

SUBCOMMITTEE RECESS

Senator COCHRAN. Our next hearing will be held tomorrow morning in room 1223. At that time we will be looking at the fiscal year 1983 budget requests of the Food and Drug Administration and the Farm Credit Administration.

The committee hearing is now recessed until then.

[Whereupon, at 12 noon, Thursday, March 11, the subcommittee was recessed, to reconvene at the call of the Chair.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

FRIDAY, MARCH 12, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 9:30 a.m., in room 1223, Everett McKinley Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Andrews, Mattingly, and Burdick.

FARM CREDIT ADMINISTRATION

STATEMENT OF DONALD E. WILKINSON, GOVERNOR, FARM CREDIT ADMINISTRATION

ACCOMPANIED BY:

C. T. FREDRICKSON, SENIOR DEPUTY GOVERNOR
FREDERICK R. MEDERO, GENERAL COUNSEL

FUNCTIONS AND ACTIVITIES OF FCA

Senator COCHRAN. The subcommittee will come to order.

Today, we are happy to welcome representatives from the Farm Credit Administration and the Food and Drug Administration, two related agencies within the purview of our appropriations jurisdiction. We will hear first from Farm Credit Administration officials.

As you know, the Farm Credit Administration is responsible for supervising a coordinated agricultural credit system of farm credit banks and associations which make credit available to farmers and their cooperatives. The Farm Credit Administration supervises Federal land banks and associations, banks for cooperatives, Federal intermediate credit banks, and production credit associations—all of which provide a vital service to America's producers of food and fiber.

Each year, Congress reviews and places in this appropriations bill a limitation on the Farm Credit Administration's estimated administrative expenses. These expenses, which are funded by assessments against earnings of the 37 farm credit banks, are first approved by the Federal Farm Credit Bank.

1982 REPORT TO CONGRESS

We are pleased to have before the subcommittee today the Governor of the Farm Credit Administration, Donald E. Wilkinson. Your 1982 Report to Congress will be made a part of the record at this point.

[The report follows:]

REPORT TO CONGRESS -- 1982

DONALD E. WILKINSON, GOVERNOR
Farm Credit Administration
Washington, D.C. 20578
Owen Cooper, Chairman
Federal Farm Credit Board

HIGHLIGHTS

The privately owned institutions of the cooperative Farm Credit System are chartered by Congress to perform functions that otherwise might have to be performed by Government itself (page 1).

The economic conditions in the farm sector have been unfavorable during the past 2 years, and the near-term prospects for improvement are not good. The net farm income picture for 1980/1981 is disappointing (page 3).

U.S. agricultural exports increased in value in 1981, despite adverse conditions, and could increase again in 1982 (page 3).

The nominal dollar value of farm assets increased 7.9 percent in 1981 (page 4), while total farm debt grew at an annual rate of 11 percent (page 5).

Despite attempts to cut the USDA budget, total Government loans and payments to producers increased in Fiscal Year 1981 (page 5).

Farm Credit System lending continued to increase in 1981 and reached $78.3 billion on October 31, 1981, an increase of more than 15 percent in the amount outstanding for the year. Federal land bank loans outstanding reached $45.4 billion, up 21.8 percent for the year. Production credit association loans outstanding stood at $22.5 billion, a 13-percent increase for the year. The banks for cooperatives had more than $9.4 billion outstanding, a decrease of 5.9 percent (page 7).

The Farm Credit System pays market rates to obtain loan funds from the sale of bonds and discount notes. The variable interest rates paid by System borrowers are based on the average cost of bonds outstanding. While uncertainties remain, the average price for money paid by the System and, ultimately, its borrowers should be lower in 1982 than it was last year (page 9).

The Federal land banks' average cost of money was 11.65 percent on December 1, 1981, nearly 3 percentage points higher than a year earlier. At that same date, the average rate charged by the land banks for farm loans was 11.94 percent (page 11).

The Federal intermediate credit banks' average cost of money was 15.32 percent in Fiscal Year 1981. PCA borrowers paid rates averaging between 12.1 and 15.2 percent (page 12).

Banks for cooperatives' average portfolio costs increased from 10.6 to 14.5 percent in the year ending November 1, 1981. BCs charged from 12.75 to 16 percent for seasonal loans in the same period (page 13).

While it weakened somewhat, Farm Credit System loan quality remained at a high level in 1981. Of PCA loans, 84.5 percent were classed as acceptable (page 14), and FLB delinquencies were 1.8 percent of the number of loans outstanding and .017 percent of the dollar amount outstanding on June 30, 1981 (page 15).

The System's share of total farm debt increased to an estimated 34.6 percent. Federal land banks continue to be the dominant farm real estate lender, holding a 42-percent share. The PCA share of nonreal estate farm debt held constant at just under 25 percent (page 16). The BCs provided about 63 percent of the amount borrowed by U.S. farmer cooperatives (page 17).

System special lending programs continued to increase in amount and importance during the year (page 18).

Through ownership interest in 144 other financing institutions, 274 commercial banks had a total of $977 million outstanding, an increase of 26.8 percent in loan volume for the year. The PCA participation program was expanded to include 662 commercial banks. On October 31, 1981, $208.3 million was outstanding in participations, an annual rate of increase of 19.3 percent (page 18).

PCA aquatic loans jumped 15.9 percent to $467 million (page 18).

FLB and PCA rural home lending reached $2.7 billion (page 18).

The BCs had nearly $1.3 billion in loans outstanding to rural utility cooperatives, up 17.7 percent from the previous year (page 19).

Young farmers were the primary borrowers in approximately one-fifth of all land bank loans closed during the year (page 19).

The Farm Credit Administration has developed proposals for final regulations implementing nearly all of the authorities contained in the Farm Credit Act Admendments of 1980 (page 20).

The top policymaking body for the Farm Credit System and Farm Credit Administration is the Federal Farm Credit Board (page 22).

The prime responsibility of the Farm Credit Administration is to maintain the integrity of the System (page 22). FCA's expenses continue to be small in comparison to System loan activity -- 18/100 of 1 percent of loans made in 1981 (page 24).

THE FARM CREDIT SYSTEM

The cooperative Farm Credit System consists of federally chartered instrumentalities of the United States that operate under authorities contained in the Farm Credit Act of 1971 (P.L. 92-181) and other statutes, most notably the Farm Credit Act Amendments of 1980 (P.L. 96-592).

The banks and associations of the Farm Credit System provide a vital service to America's producers of food and fiber. They channel loan funds from the Nation's capital markets to its countryside and coastline, helping to enhance the income and well-being of farmers, ranchers, fishermen and their cooperatives. System institutions also provide credit to rural homeowners and to certain farm-related businesses, adding to the quality of life in rural America.

The institutions of the Farm Credit System are authorized by Congress to perform functions that otherwise might have to be performed by Government itself. Yet, as borrower-owned credit cooperatives, they operate without appropriated funds. The securities that the institutions sell to raise loan funds are not guaranteed by the Government. Even the expenses of the Farm Credit Administration (FCA), the Federal Agency responsible for regulating, supervising, and examining System institutions, are paid through assessments to the banks and do not come out of the Federal budget.

Farm Credit System institutions strive to make loans that are constructive and that add to the productive capacity of U.S. agriculture. Because of the productive capacity and efficiency of American farmers, ranchers, and fishermen, U.S. citizens spend less of their income for food than the citizens of any other nation in the world. Agricultural production also contributes significantly to this Nation's balance of trade through its agricultural exports, which have a positive effect on the U.S. economy. The Farm Credit System takes pride in the service it provides to American agriculture.

The Farm Credit System is composed of 12 districts covering the United States and Puerto Rico. In each district, there is a Federal land bank, a Federal intermediate credit bank, and a bank for cooperatives. (See map and listing of states served on the back page of this report.) The System also has a Central Bank for Cooperatives, located in Denver, Colorado, that participates with the district banks for cooperatives in larger loans.

Federal Land Banks/Federal Land Bank Associations

The Federal land banks (FLBs) make loans secured by first mortgages on real estate. Loans may be made with terms of from 5 to 40 years. Loans may be in amounts of up to 85 percent of the appraised value of the property taken as security; 97 percent if the loan is guaranteed by a Federal, state or other agency. Loans are made through and serviced by 488 Federal land bank associations (FLBAs). Eligible borrowers include farmers, ranchers, producers and harvesters of aquatic products, rural homeowners, certain farm-related businesses, and legal entities engaged in agricultural or aquatic production and harvesting.

Federal Intermediate Credit Banks/ Production Credit Associations

The Federal intermediate credit banks (FICBs) provide funds to 423 production credit associations (PCAs). In addition, 274 commercial banks have an ownership interest in 144 other financing institutions (OFIs), which have access to FICB funds. As in the case of Federal land banks, eligibility for PCA or OFI financing is restricted to farmers, ranchers, commercial fishermen, rural homeowners, and certain farm-related businesses. PCA loan terms do not exceed 7 or 10 years, depending on each Farm Credit district, except for aquatic loans, which may be extended for 15 years. Loans may be made for a variety of purposes related to agricultural production, the production or harvesting of aquatic products, the provision of farm-related services, and rural housing.

Banks for Cooperatives

The banks for cooperatives (BCs) provide a complete credit service to agricultural, aquatic, and public utility cooperatives. BC term loans are made for acquiring land, purchasing or constructing buildings, buying equipment, or expanding facilities. Seasonal loans are made to finance current assets or for other short-term needs. In order for the cooperative to be eligible to borrow from a BC, 80 percent of the voting stock of most supply and marketing cooperatives must be held by agricultural or aquatic producers or by cooperatives whose stockholders fulfill that 80-percent requirement. Rural electric, telephone, and public utility cooperatives, as well as certain local farm supply cooperatives, must have a 60-percent farmer membership in order to be eligible for BC financing.

Decentralized Supervision

Supervision of the 37 banks and 911 associations of the $78 billion Farm Credit System is carried out by the 289 employees of the Farm Credit Administration through the concept of decentralization.

The foundation for decentralization is contained in the Farm Credit Act of 1971, as amended, which cites its objective as the encouragement of "... farmer and rancher borrowers' participation in the management, control, and ownership of a permanent system of credit for agriculture, which will be responsive to the credit needs of all types of agricultural producers having a basis for credit..." The Act also contains:

1. A direct charge to the Farm Credit Administration to regulate, examine, and supervise the institutions of the System.
2. A direct responsibility for the Federal land banks and Federal intermediate credit banks to supervise their respective Federal land bank associations and production credit associations.
3. A requirement for accountability to Congress for the exercise of authority to provide sound, adequate, and constructive credit and closely related services to those eligible to borrow.

The term "decentralization" is commonly used within the System to describe the change toward decreased direct Federal involvement in the day-to-day business of banks and associations, as well as increased self-direction at respective subordinate levels. This can occur only when there is a management process with the independent ability to assume responsibility, to operate soundly, and to maintain accountability to a supervisory authority. Decentralization must be guided by the managerial strengths of the business. Development of management capabilities in System banks and associations is one of the key objectives of FCA's supervisory efforts. The concept of decentralization is further refined by the practice of differential supervision. This process allows the concentration of supervisory resources where they are most needed.

The ultimate goal of decentralization is to have borrower boards of directors at all levels capable of establishing policies that reflect the letter and intent of the law and regulations and of holding managements accountable for carrying out those policies.

AGRICULTURAL CONDITIONS

Economic conditions in the farm sector have been unfavorable during the past 2 years, and prospects in the near future are for little improvement.

Farm Income

In the past year, the demand for U.S. farm products fell victim to a weak domestic economy, high interest rates, a strengthened U.S. dollar, and slow economic growth in our major importing countries. Even during the first half of 1981, when global crop supplies were relatively tight, the weak demand condition put downward pressures on farm prices. With these pressures limiting growth in gross farm income, continual increases in production costs have produced a falling net farm income.

Net farm income for 1981 is expected to fall in the $20-$24 billion range, well below the $27-$32 billion projected at the beginning of last year. The 1980 figure, which 1 year ago had been estimated at $24 billion, is now placed at $20 billion. These latest USDA estimates for 1980 and 1981 paint a very depressed farm-earnings picture -- in real terms, the lowest total since the 1930s and, unfortunately, the net farm income picture is expected to worsen in 1982.

Outlook for 1982

Unless farm commodity prices strengthen, there will be a significant decrease in nominal net farm income in 1982. With abundant crop and livestock supplies and weakening economic conditions, the prospects remain discouraging for the next several months. Three consecutive years of depressed farm income could have profound implications for the agricultural economy, in general, and for high cost producers and those carrying large debts relative to their equity, in particular. Farm input suppliers and the farm real estate market would continue to experience a difficult adjustment period.

In the coming months, farm lenders will be more concerned with creditworthiness than with availability of funds to lend. The recent stretch of unfavorable cash flow and the drop in real (constant dollar) net worth of the farm sector during the past 2 years will compel careful financial planning by farmers in conjunction with their lenders. A heavy emphasis on loan servicing may be expected throughout 1982. Though no widespread distress selling or foreclosure is anticipated, there will be increases in the number of loans experiencing financial difficulties (delinquencies, defaults, and foreclosures).

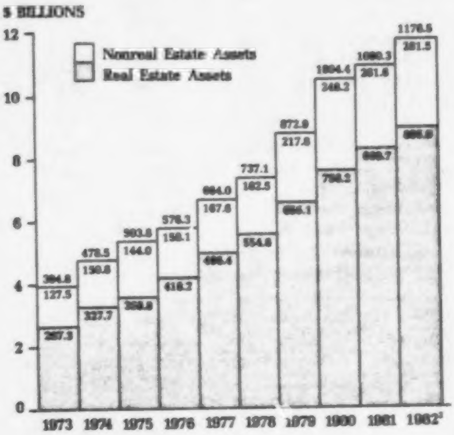
Because the structure of the farm sector (i.e., farm number, farm size, commodity specialization, etc.) has changed greatly in recent decades, it is difficult to relate current economic conditions to earlier periods or to generalize about conditions facing all farmers. Declining farm numbers blunt some of the weakness in real net farm income. In addition, farm families have become increasingly dependent on off-farm sources of income. In 1960, more than 53 percent of all farm families derived (on an average) more than one-half of their income from farming. By 1980, only 27 percent of farm families earned the majority of their support from net farm earnings.

Agricultural Exports

U.S. agricultural exports totaled $43.8 billion in Fiscal Year (FY) 1981, an 8-percent increase over 1980. Farm exports are estimated to reach $45.5 billion in FY 1982. The volume of agricultural exports for 1981 was 162.6 million tons. While the volume and value of exports achieved during 1981 were disappointing, they were fairly strong, given unexpectedly high interest rates, a stronger dollar and the slow rate of economic growth in world economies.

The 1982 export volume is expected to reach 180 million tons. This estimate is based on the assumption that there will be expanded trade with the Soviet Union. While there are potential uncertainties, the Soviets' third consecutive poor harvest in 1981 is forcing them to rely heavily on world markets to satisfy their domestic needs. Another positive factor is an expected decline in the value of the dollar, which should make our farm commodities more competitively priced in the world market.

Balance Sheet of Farm Sector-assets[1]



[1] As of January 1

[2] Preliminary

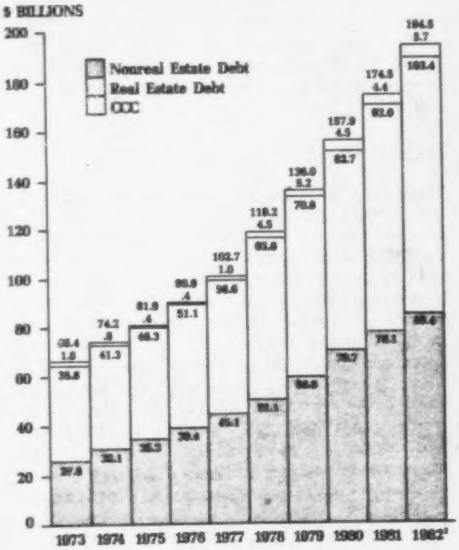
Farm Assets

On January 1, 1982, the dollar value of farm sector assets was estimated at $1,176.5 billion -- $86.2 billion or 7.9 percent higher than January 1, 1981. Since the general price level for the same period is expected to have increased by slightly over 9 percent, the purchasing power of farm assets has declined by about $11.9 billion. This represents a 1-percent decline for the year.

Because land values tend to dominate the asset side of the farm balance sheet, any changes experienced by these values are important to the financial health of American agriculture. Farm real estate markets have turned sluggish. During 1980 and 1981 this was reflected in the reduced rate of land turnover, a pattern that is expected to continue in 1982. Reported land values continue to increase, but at a much slower rate than in past years. Nominal land-price increases averaged 13 percent in the 1970s, but showed an increase of only 9 percent for the year ending February 1, 1981. Based on midyear estimates of nominal land prices, USDA has predicted increases of 7 to 11 percent for the year ending February 2, 1982; however, continuing low farm income and high interest rates suggest that these estimates for nominal land prices may be optimistic.

Failure of nominal land prices to keep pace with inflation brought a decline of 2 percent in real land prices during 1980. While inflation eased in 1981, increases in nominal land prices slowed even more. Continued high interest rates and low farm income will most likely make 1982 the third consecutive year of decline in the real purchasing power of farm real estate. This will be the first such 3-year decline since 1931-33; however, the decline is expected to be far less severe than the one of 50 years ago.

Farm Debt Outstanding — Real Estate Debt and Nonreal Estate Debt[1]



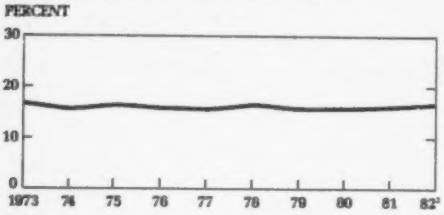
[1] As of January 1

[2] Preliminary

Farm Debt

Total farm debt grew by an estimated $20 billion during 1981 to $194.5 billion, up 11 percent from last year. The total debt continues to be fairly evenly distributed between real estate (53 percent) and nonreal estate (47 percent). If the pace of new debt assumption continues in 1982 at the 1981 rate, we can expect to see the total farm debt outstanding exceed $200 billion by mid-1982.

Debt/Asset Ratio of Farm Sector[1]



[1]As of January 1
[2]Preliminary

The debt-to-asset ratio is frequently cited as a rough indicator of the leverage of the farm sector. Poor economic conditions in agriculture caused this ratio to rise from 15.7 percent in January 1980 to 16 percent in January 1981, and to an estimated 16.5 percent by January 1, 1982. Barring an unforeseen turnaround, further deterioration may be expected during 1982. If both assets and debts grow by the same percentage in 1982 as they did in 1981, the debt-to-asset ratio will rise to 17.1 percent, the highest level since 1941.

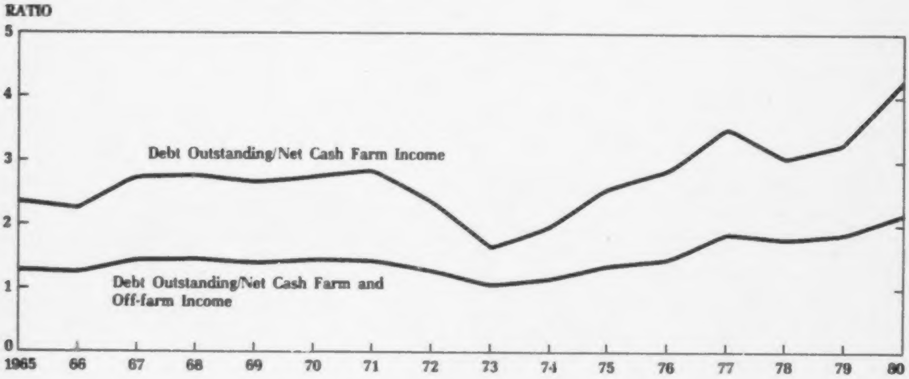
Interest costs have become a more significant factor in farm expenses in recent years. USDA estimates that total interest costs in 1981 reached about $19 billion. This is a 20-percent jump from 1980, and accounts for about 13 percent of total production expenses. With farm debt approaching $200 billion, a 1-percent change in overall interest rates faced by farmers means about a $2-billion difference in farm production expenses over the course of a year.

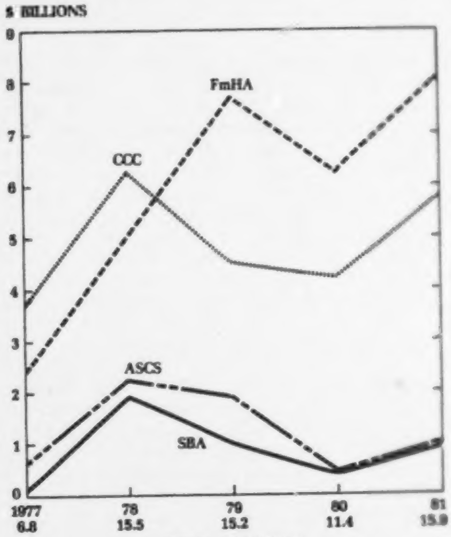
Government Loans and Payments

Total Government loans and direct payments to agricultural producers increased in FY 1981, despite Administration attempts to cut the budget. Total Government financing was $15.9 billion, an increase of 39 percent. This compares to a 12.3-percent increase in total institutional farm debt.

Agricultural Stabilization and Conservation Service (ASCS) storage and facility loans decreased during FY 1981. While there were also substantial decreases in most loan programs of the Farmers Home Administration (FmHA), the number of natural disaster loans grew from 54,494

Ratio of Farm Debt Outstanding to Income





Total Government Agricultural Loans Made and Direct Payments

to 138,990 during FY 1981. This single program, which accounted for $5.1 billion of the $8.1 billion of loans made, caused overall FmHA loan activity to increase. Small Business Administration's (SBA's) emergency loans to farmers also grew in FY 1981, even though this program was being phased out by the SBA during the second half of the year.

There have been numerous actual and proposed changes in USDA programs during 1981. Federal budget pressures are forcing commodity programs in a direction that would provide small deficiency payments during the next several crop years. Recent administrative actions have strengthened the "credit elsewhere" test for FmHA lending programs. There is also the possibility that the expanding Federal All-Risk Crop Insurance Program will substitute for some of the FmHA emergency loan activity in 1982. Standards of eligibility for being declared a "disaster county" in 1982 have been tightened, with final approval of the Secretary of Agriculture now being required. The FmHA is expected to focus closely on servicing borrowers who cannot meet commercial lending standards but who have a reasonable hope of "graduating" to commercial sources in the future. All of these changes will increase reliance of the farm sector on commercial lenders, including the Farm Credit System, for the necessary financing.

FARM CREDIT SYSTEM YEAR IN REVIEW

The Farm Credit System had $78.3 billion in loans outstanding on October 31, 1981, 15.2 percent more than a year earlier. For the first 10 months of 1981, the annual rate of growth in System loans outstanding was 17.0 percent, down from 19.7 percent during the first 10 months of 1980. Total farm debt held by lending institutions grew at a slower rate than System loans outstanding — 14.5 percent for the first 3 calendar quarters of 1981. As a result, the System's share of institutional farm debt increased to 44.1 percent at the end of September 1981. This was 2 percentage points greater than on the same date a year earlier.

A total of $74.0 billion was borrowed by the System during the first 10 months of 1981, 8.6 percent more than the corresponding period a year ago.

Federal Land Banks

Total FLB loans outstanding reached $45.4 billion by October 31, 1981, 21.8 percent greater than the same date a year earlier. Land bank loans outstanding grew at an annual rate of 23.2 percent during the first 10 months of 1981, down slightly from 23.3 percent for the same period a year ago. By the end of the third calendar quarter of 1981, FLBs held 58.0 percent of the institutional farm real estate debt outstanding, up from 54.0 percent a year earlier. The number of FLB loans outstanding increased by 8.6 percent over year-earlier levels, to 639,275 at the end of October 1981. The average FLB loan was for $71,468 on October 31, 1981, 12.2 percent more than a year earlier.

Monthly repayment rates at land banks declined during 1981. For the first 10 months of the year, monthly repayments averaged 0.39 percent of loans outstanding, down from an average of 0.48 percent for the first 10 months of 1980. Refinancing of land bank loans increased, rising to a monthly average of 18.2 percent of loans made for the first 10 months of 1981, as compared with an average of 17.8 percent for the same 10 months in 1980.

Production Credit Associations and Federal Intermediate Credit Banks

PCA loans outstanding stood at $22.5 billion at the end of October 1981, 13.0 percent greater than a year earlier. Growth in PCA loans outstanding was very strong early in 1981 but slowed as the year progressed. The annual rate of growth in PCA loans outstanding was 14.1 percent for the first 10 months of 1981, compared to 9.8 percent during the first 10 months of 1980. The PCA share of total farm institutional nonreal estate debt stood at 29.5 percent at the end of the third quarter of 1981, the same share as a year earlier. The number of PCA members with loans outstanding increased by 3.5 percent during the year ending October 31, 1981, to 387,622. The average PCA loan outstanding was for $58,036 on that date, 9.2 percent above year-earlier levels.

As with FLB repayments, PCA collection rates were generally lower in 1981 than in 1980. Monthly PCA collections averaged 8.8 percent of outstandings during the first 10 months of 1981. This compares with 9.4 percent during the first 10 months of 1980. PCA loan renewals averaged 28.8 percent of loans made during the January-October period of 1981. This compares with 29.3 percent for the first 10 months of 1980.

FICBs had an additional $977.9 million in loans outstanding to other financing institutions as of October 1981. This was 26.8 percent more than on the same date a year earlier.

Banks for Cooperatives

On October 31, 1981, the BCs had over $9.4 billion outstanding, a decrease of 5.9 percent from year-earlier levels. BC lending is particularly sensitive to changes in interest rates charged by competitors, including the Commodity Credit Corporation.

Farm Credit System Funding

The System issued $55.2 billion in bonds and $44.4 billion in discount notes during the year ending October 31, 1981. During the same period of the previous year, a total of $50.2 billion in bonds and $40.0 billion in discount notes was issued. On October 31, 1981, the System had $69.5 billion in bonds and $2.8 billion in discount notes outstanding. A year earlier, bonds outstanding totaled $58.8 billion and discount notes outstanding were $3.9 billion. Costs of funds varied widely during the year. Six-month bond rates varied from 12.75 percent in January to 17.85 percent in September.

The following data is provided as of October 31, 1981.

Federal Land Banks	1980	1981
Number of loans outstanding	588,486	639,275
Amount of loans outstanding (000)	$37,260,402	$45,385,570
Number of loans made during year	94,702	97,875
Amount of loans made during year (000)	$10,474,196	$11,901,355

Production Credit Associations*	1980	1981
Number of members with loans outstanding	374,501	387,622
Amount of loans made during year (000)	$32,335,697	$35,224,241
Amount of loans outstanding (000)	$19,909,692	$22,496,415

Federal Intermediate Credit Banks	1980	1981
Loans made to other financing institutions during year (000)	$ 1,940,605	$ 2,030,580
Loans outstanding to other financing institutions (000)	$ 771,146	$ 977,914

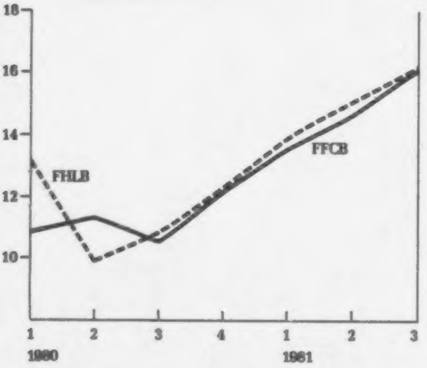
Banks for Cooperatives	1980	1981
Number of cooperatives with loans outstanding	3,467	3,536
Amount of gross loans outstanding (000)	$ 9,987,860	$ 9,400,481
Amount of loans made during year (000)	$23,650,741	$24,851,378

*PCAs obtain loan funds from FICBs.

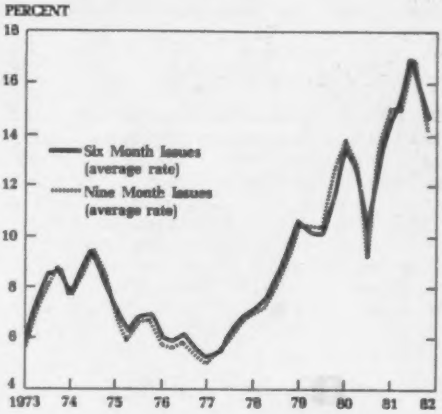
INTEREST RATES

The Farm Credit System obtains loan funds through the sale of bonds and discount notes in the national money markets. Farm Credit System securities have a long and successful marketing history dating back to 1917. The System has been able to raise funds in capital markets at competitive interest rates without any Government guarantee. This favorable market perception of Farm Credit securities is the basis for the System's ability to provide "sound, adequate, and constructive credit" on a continuous basis to producers and their cooperatives.

Rates on Federal Farm Credit Vs. Federal Home Loan Bank 5 Year Bonds

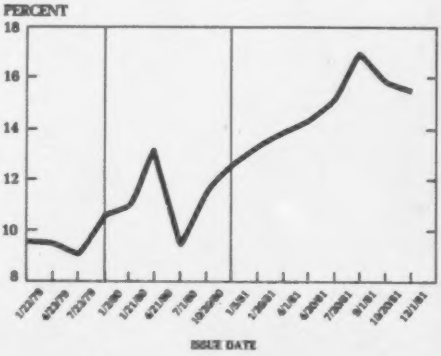


Average Quarterly Interest Rate on Farm Credit System 6 and 9 Month Bonds



Interest rates paid by the System will continue to follow market rates in 1982. A potentially deepening recession in the first half of the year, coupled with a burgeoning Government deficit, makes the outlook for interest rates in 1982 uncertain; however, the average rate paid for System securities should be lower than the 1981 average. With a large number of high-priced issues maturing in early 1982, the System should be able to decrease its average cost of funds, resulting in lower short-term rates to borrowers; however, longer term rates will be at least steady in the first half of 1982, as older bonds carrying low interest rates mature and must be replaced at 1982 rates.

Interest Rates on Farm Credit System 5 Year Bonds



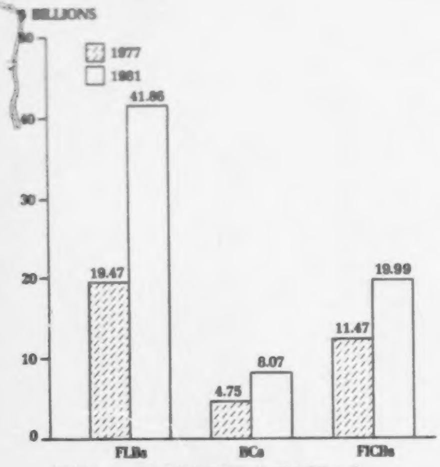
The variable interest rates that the Farm Credit System charges its borrowers are based on the average cost of bonds outstanding, rather than the cost of the most recent sale of securities. In times of rising interest rates, the System is able to charge below current market rates because the cost of the new high-priced bonds is averaged in with the lower cost, existing portfolio. Conversely, as rates decline in the variable framework, the average cost of funds declines, but not as fast as market rates.

Credit Markets - 1981

In 1981, the Federal Reserve continued its policy, instituted in October 1979, of controlling the supply of money instead of interest rates. Unlike 1980, there were no controls on credit during 1981; fluctuations in rates, therefore, were more constrained than in 1980. Interest rates, however, tended to be marginally higher, as the Federal Reserve pursued a tight monetary policy during the year ending September 30, 1981.

A tight monetary policy is usually accompanied by an inverted yield curve (during which short rates are higher than long rates). This was the prevailing pattern last year until mid-September, when 5-year Treasury notes rose above 3-month Treasury bills. At that time, the Federal Reserve began to ease its grip on the money supply in response to visible strains in the economy. As rates moved up during the year, farmers held borrowing to a minimum. An ample supply of commercial bank funds was also available for agricultural purposes. High interest rates slowed the rate of growth in the Farm Credit System's outstanding loans.

Amount of Bonds Outstanding 1977 Vs 1981[1]



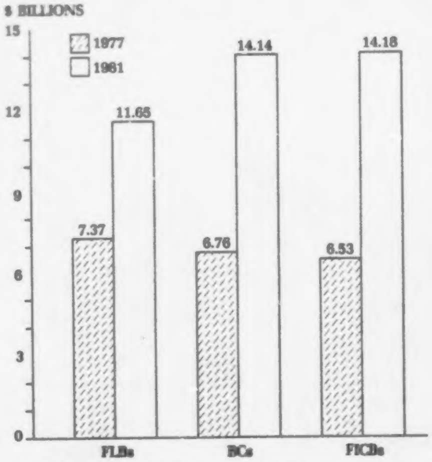
[1]FLB figures as of Oct. 20, 1977 term sale; BC & FICB as of Dec. 1, 1977 bond sale.

[2]As of Dec. 1, 1981 bond sale.

Funding Operations in 1981

Through September 30, 1981, the System had $68.1 billion in bonds outstanding, a 17.9-percent increase over a year ago. For the year ending on the same date, the System raised $10.4 billion in new money and $45 billion to refinance maturing issues. New money raised in FY 1981 amounted to 4.1 percent of total credit market funds raised by financial and nonfinancial sectors.

Average Cost of Bonds Outstanding 1977[1] **Vs 1981**[2]



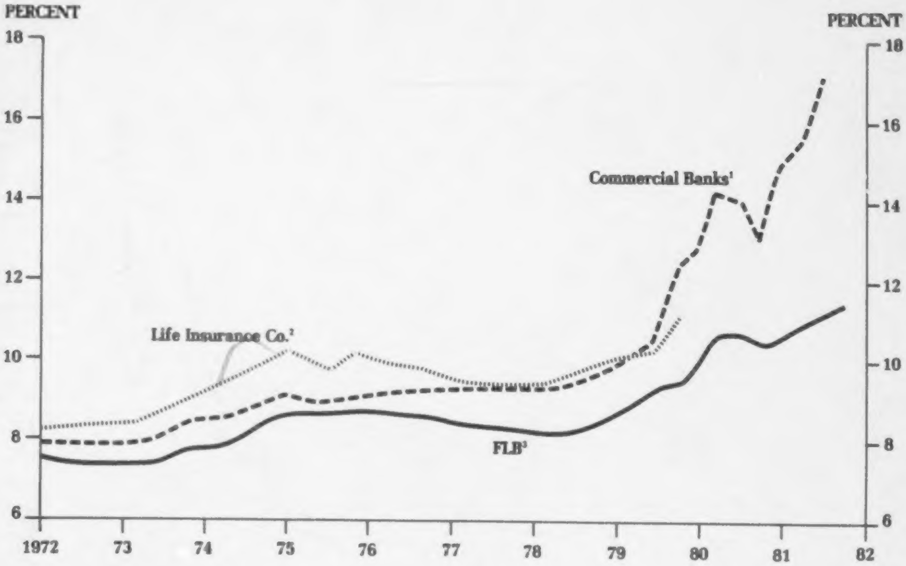
[1]FLB figures as of Oct. 20, 1977 term sale; BC & FICB as of Dec. 1, 1977 bond sale.

[2]As of Dec. 1, 1981 bond sale.

Federal Land Bank Rates

Federal land bank rates charged to borrowers will remain fairly constant in early 1982. In the first quarter of 1982, the FLBs will be refinancing nearly $2 billion in short-term bonds

Interest Rates Charged on Farm Real Estate Loans



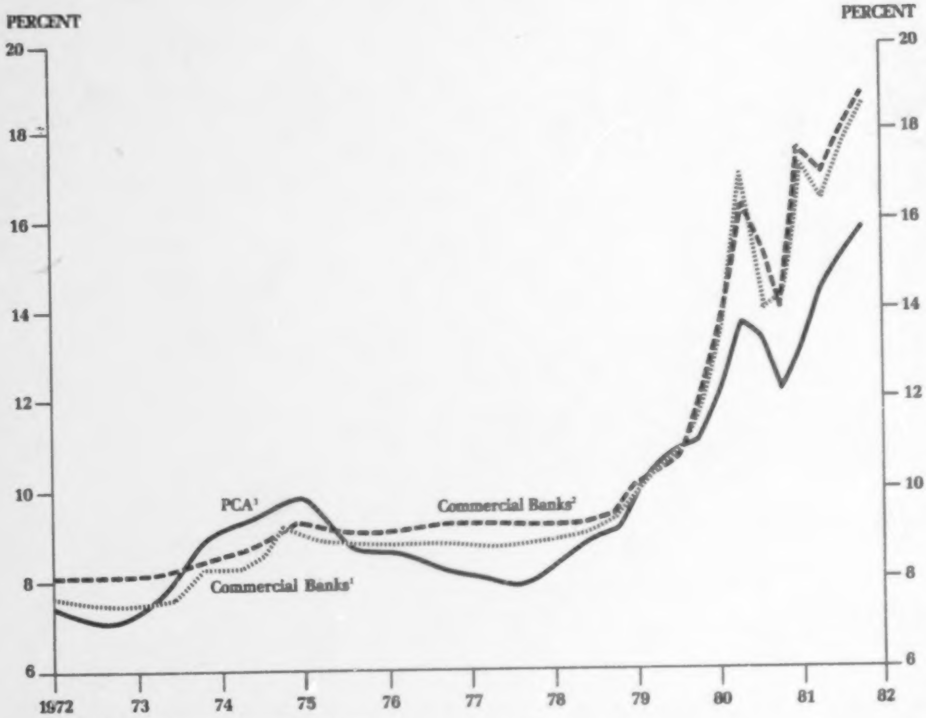
¹Minneapolis Federal Reserve District avg. interest rate on long-term real estate loans
²No data beyond 1979
³Excludes stock purchases and other fees

bearing a weighted average cost of 16.73 percent and $1.6 billion in long-term issues maturing at a weighted average rate of only 7.85 percent. Indications are for a substantially lower cost for short-term funds, but a markedly higher cost to refinance the maturing long-term issues. The net effect on the FLBs' average portfolio cost should be negligible.

On December 1, 1981, the average cost of the FLBs' debt outstanding was 11.65 percent, nearly 3 percentage points higher than the 9.71-percent average cost of a year earlier. Short-term rates paid by the land banks increased fairly steadily the first three quarters of 1981 before peaking in September at a rate of 17.96 percent. For the year as a whole, short-term bonds totaling $9.3 billion were issued at a weighted average cost of 15.75 percent, while $10.7 billion in long-term issues sold at an average cost of 14.60 percent.

On December 1, 1981, the average rate charged by FLBs for farm loans was 11.94 percent, as compared to 10.47 percent a year earlier. The FLB rural home loan rate on December 1, 1981, was 12.35 percent, an increase of 1.57 percentage points from a year earlier. All new land bank loans are subject to a one-time loan fee which ranges from 0.5 percent to 10 percent. The new loan fee is determined by each district and varies according to loan type, loan size, and other factors.

Interest Rates Charged for Farm Nonreal Estate Loans



[1] Chicago Federal Reserve District Feeder Cattle Loans
[2] Minneapolis Federal Reserve District Nonreal Estate Farm Loans
[3] Excludes Stock Purchases and Other Fees

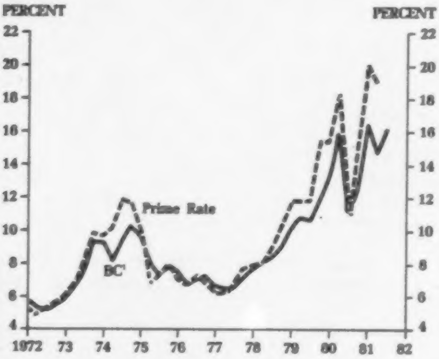
Federal Intermediate Credit Banks/ Production Credit Associations Rates

The outlook for 1982 is for lower market interest rates as the year begins, and higher rates as the year progresses as credit demands from a recovering economy bring upward pressure on rates.

In the first quarter of calendar 1982, approximately 30 percent of the Federal intermediate credit banks' (FICBs) portfolios will mature. As short-term rates are expected to be lower in this period than in 1981, the average cost of the FICBs' portfolio should decline by 1.0 or 1.2 percent from the 15.32 percent average paid by FICBs in FY 1981. In turn, production credit associations will be able to ease rates slightly. Rates at competitive commercial banks will also fall, perhaps at a faster pace than those of the PCAs. During rate declines, the average cost of the FICB portfolio tends to be higher than current market rates, putting the PCAs at a competitive disadvantage to commercial banks.

PCA rates and commercial bank rates are not directly comparable because of PCA stock requirements, patronage distributions, and commercial banks' compensating balances; however, PCA rates, on the average, were below those charged by commercial banks in 1981. Farmers paid rates averaging between 12.1 percent and 15.2 percent at PCAs during the fiscal year ending September 30, 1981. By contrast, farm borrowers at commercial banks in the Minneapolis and Chicago areas, for example, paid on the average between 14 percent and 18 percent, with rates at large banks being higher than those at community banks.

Banks for Cooperative Seasonal Rate Vs Prime



¹Excludes Stock Purchases and Other Fees

Banks for Cooperatives Rates

Because the BC portfolio is geared toward short-term obligations, lower short-term rates in early 1982 (compared to 1981) will lower the BCs' cost of funds. In the first quarter of 1982, $2.2 billion in short-term funds will mature at an average rate of 16.7 percent. A decline of 4.5 percentage points in the cost of funds to replace the maturing issues would translate into a significant 1.3-percent decline in the BCs' average cost of funds.

In 1981, $9.3 billion in short-term bonds was sold by the BCs at an average cost of 15.65 percent. The cost and the rate paid by borrowers were very sensitive to money market changes during the year. Between November 1, 1980, and November 1, 1981, the BCs' average portfolio cost increased from 10.6 percent to 14.5 percent, and the rates they charged borrowers for seasonal loans increased from an average of 12.75 percent to 16 percent. Conversely, as short-term rates dropped precipitously in November, the average rate charged by the BCs decreased accordingly from 16 percent to 14.75 percent as of December 1, 1981.

FARM CREDIT SYSTEM LOAN QUALITY

During 1981, Farm Credit System loan quality and payment performance weakened; nevertheless, they remained at a high level. In view of the lackluster farm income prospects for 1982, some further cyclic deterioration seems likely.

The Farm Credit System takes pride in maintaining high loan quality and low loan losses, thereby supporting the financing needs of American farmers and ensuring the quality of bonds to investors. The System is aware of the need for caution during difficult periods to ensure a continuous supply of sound, adequate and constructive credit to farmers and ranchers.

Annually, a sample of PCA loans is examined to determine loan quality. These tests are made throughout the year. Thus, data reported represent an average of loans that were examined during each of the prior 12 months. Loans in the sample are classified as being: (1) acceptable; (2) problem; (3) vulnerable; or (4) loss.

Acceptable loans -- Loans of the highest quality, ranging down to and including those having significant credit weaknesses.

Problem loans -- Loans having serious credit weaknesses requiring more than normal supervision but believed to be collectible in full.

Vulnerable loans -- High-risk loans still considered collectible but involving probability of loss in the event repayment from available sources does not materialize.

Loss loans -- Loans on which all or any portion is deemed uncollectible. These loans represent cases in which it appears that all or a portion of the borrower's total indebtedness, including any previous partial charge-off, will not be collected in full.

Important factors considered in classifying loans include:

1. The individual or entity (integrity and moral character, management ability, experience, etc.).
2. Financial position and progress.
3. Repayment capacity.
4. Loan purpose and basis of approval.
5. Collateral offered or available as security.

Additionally, a good deal of weight is given to the borrower's performance on other loans held by the Farm Credit System and other lenders. PCA loan classifications for the last 11 years are summarized in the following table.

Production Credit Associations
Summary of Loan Classifications*

	Acceptable Percent	Problem Percent	Vulnerable Percent	Loss Percent
1971	83.4	14.6	1.3	0.7
1972	84.5	13.8	1.2	0.5
1973	88.0	10.9	0.8	0.3
1974	88.3	10.5	0.8	0.4
1975	82.0	15.5	1.7	0.8
1976	81.7	16.1	1.4	0.8
1977	82.8	15.6	1.1	0.5
1978	85.6	13.4	0.7	0.3
1979	87.7	11.7	0.4	0.2
1980	85.9	13.2	0.6	0.3
1981**	84.5	14.4	0.8	0.3

*% Dollar Volume (Percentage based on sample classified) **Preliminary

During 1981, loans classified as "acceptable" dropped by 1.6 percent to 84.5 percent of loans outstanding. The combination of "vulnerable" and "loss" loans totalled 1.1 percent, slightly above the 1.0-percent level of 1978, but well below the most recent (1975) peak of 2.5 percent.

PCA collection rates and FLB repayment rates are calculated as loan payments by borrowers, and expressed as a percentage of loans outstanding adjusted for annual growth in loans outstanding. The adjustment is required to ensure that new loans not yet scheduled for a payment do not influence the calculation. Fluctuations in these rates are due largely to changes in farm income and Government lending programs. Overall, PCA monthly collection rates in 1981 were below 1980 levels and the prior 3-year average.

The FLB repayment rate was also below the 1980 levels and the prior 3-year average. Reasons for this include the increasing importance of interest relative to principal and the attractiveness of FLB interest rates relative to other lenders' rates. FLB delinquencies on June 30, 1981, were 1.8 percent of the number of loans outstanding, the same percent as last year, and accounted for 0.17 percent of the dollar volume of loans outstanding, slightly higher than last year's level. Foreclosures during 1981 remained at statistically insignificant levels.

Loan losses represent a final result of borrower financial difficulty that could not be overcome through loan servicing. They reflect loss to the System and do not cover additional substantial losses to the unsuccessful borrowers. Results were improved from 1980 in the BC system, about unchanged in the FLB system, and substantially poorer in the FICB/PCA system; however, losses were a very small percentage of loans outstanding. Because these figures cover only the period through June 30, 1981, the effect of prolonged farm income weakness in the second half of 1981 and into 1982 is not reflected.

For the year ending June 30, 1981, the banks for cooperatives received a net of $1.1 million from the sale of acquired collateral. This represents .013 percent of the total BC outstandings. During 1979 and 1980, BC loan losses represented .005 percent and .152 percent, respectively, of the total loans outstanding. Because of the nature of BC lending operations, year-to-year comparisons of BC loan losses do not, in themselves, provide a reliable indication of either credit practices or the general economic conditions of cooperatives.

In combination, the FICBs and PCAs realized some $26.7 million on loss loans (0.12 percent of their loans outstanding) during the year ending June 30, 1981. This was a substantial increase from the previous year's $10.2 million. FLBs/FLBAs' write-off of $800,000 is slightly above last year's write-off in absolute terms, but constituted only 0.002 percent of total loans outstanding.

Loan Losses
Net Acquired Property Income for Year Ending June 30

	1979		1980		1981	
	Amount of Net Losses*	% Loans Outstanding	Amount of Net Losses*	% Loans Outstanding	Amount of Net Losses* (Gains)	% Loans Outstanding
Banks for Cooperatives	$322	.005	$11,531	.152	($1,102)	(.013)
FICB-PCA	$5,057	.03	$10,195	.049	$26,657	.120
FLB-FLBA	$1,156	.004	$750	.002	$784	.002

*Thousands of dollars

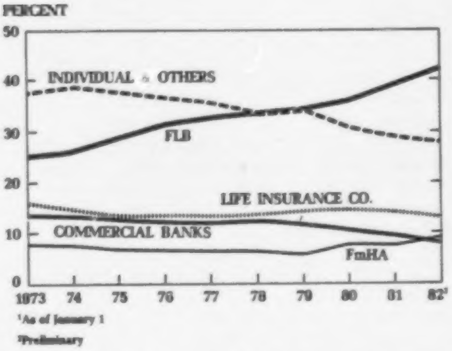
FARM CREDIT SYSTEM SHARE OF FARM DEBT

The Farm Credit System share of farm debt outstanding reached $56.8 billion, 32.5 percent of the total on January 1, 1981. On January 1, 1982, the System's share of the total outstanding is expected to reach about $67 billion or 34.6 percent of the total farm debt outstanding.

Federal Land Banks

Federal land bank lending continued to play the dominant role in the farm real estate market in 1981. By yearend, FLBs held 42 percent of the total volume of farm loans secured by real estate. Insurance companies' share of the real estate debt dropped to 13 percent, due largely to the fact that these companies had relatively modest amounts available to invest, and because most of their available funds went into nonfarm investments. This is a recurrent pattern in tight money periods. The share of the agricultural real estate credit market held by individuals and others ended the year at about 28 percent. The remaining farm real estate debt is held by the Farmers Home Administration (9 percent) and by commercial banks (8 percent).

Farm Real Estate Debt Outstanding—Lender Shares¹



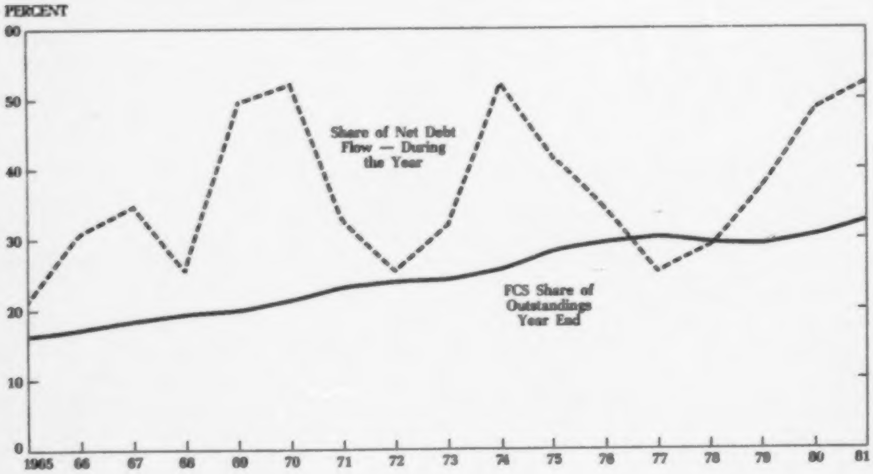
¹As of January 1

²Preliminary

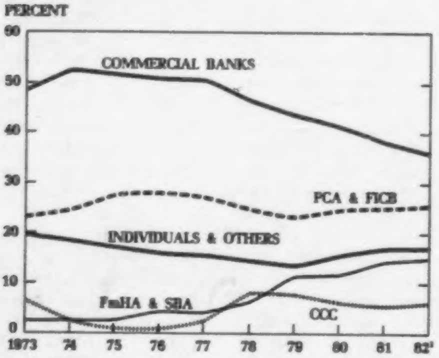
Production Credit Associations and Federal Intermediate Credit Banks

Total farm nonreal estate debt outstanding reached an estimated $91 billion at

Farm Credit System Share of Net Farm Debt Flow During Year and Debt Outstanding at Year End



Farm Nonreal Estate Debt Outstanding — Lender Shares¹



¹As of January 1

²Preliminary

the end of 1981, up 10 percent for the year. Commercial banks continue to be the primary source of nonreal estate debt, holding about 36 percent of the total volume. The PCA share held constant, ending the year just under 25 percent. FICB loans to other financial institutions comprise about 1 percent of farm nonreal estate debt. The FmHA experienced the greatest percentage increase (nearly 15 percent of the outstandings at yearend), largely because of the use of the FmHA disaster loan program in response to poor growing conditions during 1980. About 6 percent of farm nonreal estate debt is held by the Commodity Credit Corporation. Noninstitutional lenders hold about 17 percent of all farm nonreal estate debt.

Banks for Cooperatives

The banks for cooperatives continue to be the primary source of funds for U.S. agricultural cooperatives. The latest available data indicate that the BCs provide about 63 percent of the total borrowed funds outstanding to farmer cooperatives. Moreover, a USDA survey shows the BCs hold 58.4 percent of the debt of the largest 100 cooperatives.

For the year ending October 31, 1981, the BCs lent a total of $9.4 billion to U.S. cooperatives. Over 68 percent of the BC loans went to marketing cooperatives, 25 percent to farm supply cooperatives and the remainder to farm business service and miscellaneous cooperatives. Grain marketing cooperatives, as a group, were the largest users of BC credit. The BC system also offers financially related services in areas such as budgeting, long-range planning, operating trend analyses, credit standards and auditing.

Banks for Cooperatives Share of Annual Loans Made by Principal Product

Principal Product		Annual Percentage 12-Month Period Ending 12/31/80
Grain		40.69
Dairy		9.95
Fruits, Citrus Fruits and Vegetables		7.31
Cotton Fiber		3.90
Sugar		2.86
Products of Oil-Bearing Crops		1.93
Peanuts		0.63
Livestock		0.39
Poultry		0.26
Wine and Brandy		0.17
Aquatic		0.09
Other		0.08
Beans and Peas		0.07
Wool and Mohair		0.05
Tobacco		0.02
Total Farm Products	68.4	
Total Farm Supplies	24.6	
Total Farm Business Services	.9	
Total Miscellaneous	6.1	
Total	100.0	

SPECIAL LENDING PROGRAMS

Special Lending Programs
Outstanding at October 31, 1980 & 1981

	1981 Million		1980 Million	
OFI Loans	$ 977.9		$ 771.1	
PCA Participation Loans	208.3		174.5	
Aquatic Loans	467.7		403.6	
Rural Home Loans	2,705.2		2,049.5	
Federal Land Banks		$2,670.6		$2,018.6
Production Credit Associations		34.6		30.9
Rural Electric Cooperatives	1,252.5		1,063.5	

Other Financing Institutions

In addition to providing loan funds to PCAs, the Federal intermediate credit banks (FICBs) are authorized to discount or purchase agricultural paper from other financing institutions (OFIs). OFIs are commercial banks and other institutional lenders that qualify for access to the discount facility because they are significantly involved in agricultural lending, have a demonstrated need for access, can show sufficient financial stability, and can meet other statutory and regulatory requirements for eligibility under the Farm Credit Act of 1971, as amended.

Some 144 OFIs discounted with or were in a position to discount with the FICBs during 1980. A total of 274 commercial banks had an ownership interest in the 144 bank-affiliated OFIs. On October 31, 1981, OFIs had $977.9 million outstanding, an increase of 26.8 percent for the year. OFI dollar volume has been steadily rising since 1978, but the annual percentage rate of change reached a peak in March 1980, when commercial banks were experiencing severe liquidity problems. Liberalized eligibility requirements, provided by regulations under the Farm Credit Act Amendments of 1980, became effective on December 26, 1981. They will make it possible for more rural community banks to access the FICB discount facility in the future.

Commercial Lender Participations

The PCA participation program is a means by which 662 commercial banks on September 30, 1981, obtained loan funds from the Farm Credit System without establishing a discount relationship with an FICB. The program is similar to the typical overline arrangement between a country bank and a city correspondent bank. Under the program, a commercial bank takes part of each loan, generally up to the legal lending limit per borrower, and the PCA, which usually has a higher individual lending limit, takes the rest of the loan. The originating bank collects the principal and interest and services the loan.

On October 31, 1981, $208.3 million was outstanding in participations, an increase of 19.3 percent from the previous year. The 1981 rate of increase in PCA participations is less than had been expected. In fact, the year-over-year percentage change was below the 1980 level in the first 6 months of the year. This can be attributed chiefly to the improved liquidity position of rural banks during 1981, as compared with 1980.

Aquatic Loans

A 1978 amendment to the Farm Credit Act authorizes PCAs to make 15-year term loans to U.S. commercial fishermen. Enactment of this amendment has resulted in a significant increase in PCA aquatic lending. In the first year that the 15-year loan authority was implemented, PCAs had $249.9 million in loans outstanding to fishermen. In the year ending October 31, 1981, aquatic loans outstanding reached $467.7 million, which is a 15.9-percent increase compared to the previous year.

Rural Home Loans

Rural home lending, since it was authorized in the 1971 Farm Credit Act, has experienced rapid growth. As of October 31, 1981, FLBs and PCAs had $2.7 billion in rural home loans outstanding, an increase of 32 percent over the previous year. Despite its generally fast growth, rural home lending represents only a small portion of total FLB and PCA loan volume, 5.8 percent and 0.2 percent, respectively.

Rural Electric Cooperative (REC) Loans

In the year ending October 31, 1981, the BCs had nearly $1.3 billion in loans outstanding to rural electric cooperatives, up 17.7 percent from a year ago. Nearly 94 percent of rural electric lending is concentrated in the Louisville, New Orleans, and St. Paul Farm Credit Districts. The 90 REC loans outstanding represent 13.3 percent of total BC loans outstanding. Lending to RECs increased substantially in the last 4 years in response to the massive capital needs of rural electric generating and transmission cooperatives and the cooperative eligibility changes legislated by Congress in 1975. A greater demand by RECs for private-sector credit is expected if the Rural Electrification Administration cuts back on the amount of funds available. A further adjustment in the BC eligibility requirement contained in the Farm Credit Act Amendments of 1980 equips the BCs to meet a larger proportion of any such possible new demand.

Young Farmer Financing

Young farmers were the primary borrowers in 15,689 land bank farm loans made during 1980, nearly one-fifth of all such loans closed during the year and received more than 16 percent of total FLB farm loan volume. An unquantifiable but undoubtedly significant number of additional young borrowers indirectly benefited from FLB loan programs as members of partnerships and corporations in which an older borrower was identified as the primary borrower.

Financially Related Services

Farm Credit institutions offer several authorized financially related services. Credit life insurance has been offered to Farm Credit System borrowers for 29 years and is currently available in all districts. Crop hail insurance and multiple peril crop insurance are available in various districts throughout the System. Other financially related services offered include: equipment rental/leasing; farm business consulting; farm income tax preparation; estate planning assistance; appraisal service; and financial and management consulting services to cooperatives.

FARM CREDIT ACT AMENDMENTS OF 1980

Implementation of the 1980 Farm Credit Act Amendments

In December 1980, Congress passed and the President signed into law the Farm Credit Act Amendments of 1980 (P.L. 96-592). The purpose of the legislation is to update the authorities contained in the Farm Credit Act of 1971 to allow the System to more effectively serve the needs of American farmers, ranchers, and fishermen, now and in the future. Even as the bill was being considered by the Congress, FCA had begun work to identify what regulatory changes would be required if the amendments became law. Upon enactment of the amendments, FCA began drafting proposed regulations.

Nearly all of the regulations implementing the 1980 amendments have been written and published either as final or proposed rules in the Federal Register. The final regulations become effective following a 30-day waiting period after the date of publication in the Register. Depending on the requirements of the regulation, some authorities cannot be implemented until the Farm Credit banks develop policies on the authorities, subject to the approval of FCA. Some authorities of a "housekeeping" nature can be implemented following expiration of the 30-day waiting period.

Final regulations implementing the following major provisions have been published in the Federal Register:

1. Regulations permitting the banks for cooperatives (BCs) to provide financing for exports to the cooperatives they serve. In general, the regulations allow the BCs to perform export-import financing functions equivalent to those that may be exercised directly by banks, bank holding companies, and Edge and agreement corporations of the United States. The regulations also give BCs export authorities equivalent to those exercised indirectly by commercial banks through their foreign and domestic branches, subsidiaries, or affiliated entities. In other words, the new regulations allow the BCs to develop the means and mechanisms necessary to offer basic international credit and financial services to their borrowers. Some of these new authorities for BCs are listed below:

    a. Authority to make deposits in foreign branches of U.S. banks and foreign banks.

    b. Authority to receive and hold credit balances from banks and borrowers.

    c. Authority to provide bankers acceptances' financing to borrowers and foreign buyers of U.S. exports sold by cooperatives.

    d. Authority to extend financing to parties associated with cooperatives where a member cooperative will benefit substantially.

2. Regulations initiating development of Farm Credit System district coordinated programs to serve young, beginning and small farmers, ranchers and aquatic producers.

3. Regulations authorizing Federal land banks (FLBs) to make loans of up to 97 percent of the appraised value of the real estate security where a guarantee is provided by a governmental unit.

4. Regulations authorizing production credit associations (PCAs) and FLBs to make processing and marketing loans to bona fide farmers, ranchers and aquatic producers who supply at least 20 percent of the product to be processed or marketed, or such higher percentage as may be set by a Farm Credit district board.

5. Regulations lowering the farmer-member eligibility requirement for BC financing to 60 percent of voting members for rural electric, telephone, utility, service, and certain

local supply cooperatives. Other cooperatives must satisfy a requirement of 80 percent.

6. Regulations allowing district boards to increase the maximum term of nonaquatic PCA loans to 10 years.

7. Regulations broadening the authority of System institutions to serve fishermen.

Complete implementation of these authorities requires district and bank policies. The authorities will be implemented following FCA's approval of those policies.

Final regulations implementing the other financing institutions (OFIs) authority of the Farm Credit Act Amendments of 1980 became effective December 26, when President Reagan signed into law a special bill (S. 1948). Legislative action was needed because the final OFI regulations otherwise would have been required to remain before Congress for 60 working days of a continuous session. Because the sine die adjournment of Congress breaks the continuity of the session, implementation of the OFI regulations would not have been possible before 60 days had expired in the second session of Congress, which started January 25, 1982.

Among other things, the final OFI regulations liberalize the certain requirements that commercial banks and other institutional lenders must satisfy in order to obtain loan funds from a Federal intermediate credit bank. The four requirements that an applicant must now satisfy to obtain access are:

1. A significant involvement in agricultural lending -- formerly, applicants were required to have at least 25 percent of their loan portfolio in agriculture. The new regulation lowers the percentage to 15 percent and expands the scope of eligible "agricultural" loans (i.e., those included in computing the percentage) to include such things as farm real estate loans, loans to commercial fishermen and farm leases.

2. A continuing need for supplementary sources of funds for agricultural or aquatic lending -- under the previous regulations, eligible applicants had to leave a loan-to-deposit ratio of at least 65 percent for the preceding 3 years. The new regulation lowers this minimum ratio to 60 percent.

3. Limited access to national capital markets.

4. Willingness not to use funds to expand nonagricultural or nonaquatic lending.

It is likely that all of the authorities contained in the 1980 Farm Credit Act Amendments will complete the regulatory path by the summer of 1982.

Consumer Cooperative Bank

In 1981, the Congress passed legislation (P.L. 97-35), which would transform the National Consumer Cooperative Bank from a federally funded agency to a private entity. One provision included in P.L. 97-35 requires the Farm Credit Administration to examine the Consumer Co-op Bank. Under the law, FCA is not responsible for the supervision of the Consumer Co-op Bank. The Agency will be reimbursed by the Consumer Co-op Bank for all of the costs it incurs in the examination process.

FARM CREDIT ADMINISTRATION

Responsibilities of the Federal Farm Credit Board

The Federal Farm Credit Board is the highest policymaking body for the Farm Credit Administration and the cooperative Farm Credit System. The Board establishes regulations to implement the laws under which the System operates and also recommends legislative actions needed to fulfill the System's role, as established by Congress, of meeting the credit and related needs of the System's borrowers.

Members of the Federal Farm Credit Board, as all other boards in the System, serve on a part-time basis. Twelve members of the Board, one from each Farm Credit district, are appointed by the President of the United States with the advice and consent of the U.S. Senate. They serve 6-year terms and are not eligible for reappointment. A thirteenth member of the Board is appointed by and serves at the pleasure of the Secretary of Agriculture.

The law provides that, in making his appointments to the Board, the President must consider the public interest, the welfare of farmers, a fair representation from the three banking groups of the System, and must give special consideration to persons who are experienced in cooperative agricultural credit. Through a series of polls, three candidates are nominated for each vacancy on the Federal Farm Credit Board -- one each by the Federal land bank associations, production credit associations, and cooperatives holding stock in the districts' banks for cooperatives.

The present members of the Federal Farm Credit Board are as follows:

Federal Farm Credit Board	District Represented
Dwight L. Tripp, Maine	Springfield
William D. Wampler Virginia	Baltimore
W. Proctor Scarboro North Carolina	Columbia
Marvin R. Bradley Indiana	Louisville
Owen Cooper, Mississippi	New Orleans
John D. Naill, Jr. Arkansas	St. Louis
Jewell Haaland, Minnesota	St. Paul
Ralph Raikes, Nebraska	Omaha
Ralph Ball, Kansas	Wichita
Wm. Dale Nix, Texas	Texas
Edgar C. Rutherford California	Sacramento
George W. Lacey, Montana	Spokane
George Steele Pennsylvania	Secretary's Appointee

Farm Credit Districts

In each of the 12 Farm Credit districts, there is a Federal land bank, a Federal intermediate credit bank, and a bank for cooperatives. The Central Bank for Cooperatives is located in Denver, Colorado. The map on the back page of this report shows the states served by each district. Also listed is the city and zip code for each district headquarters.

Farm Credit Administration Staff

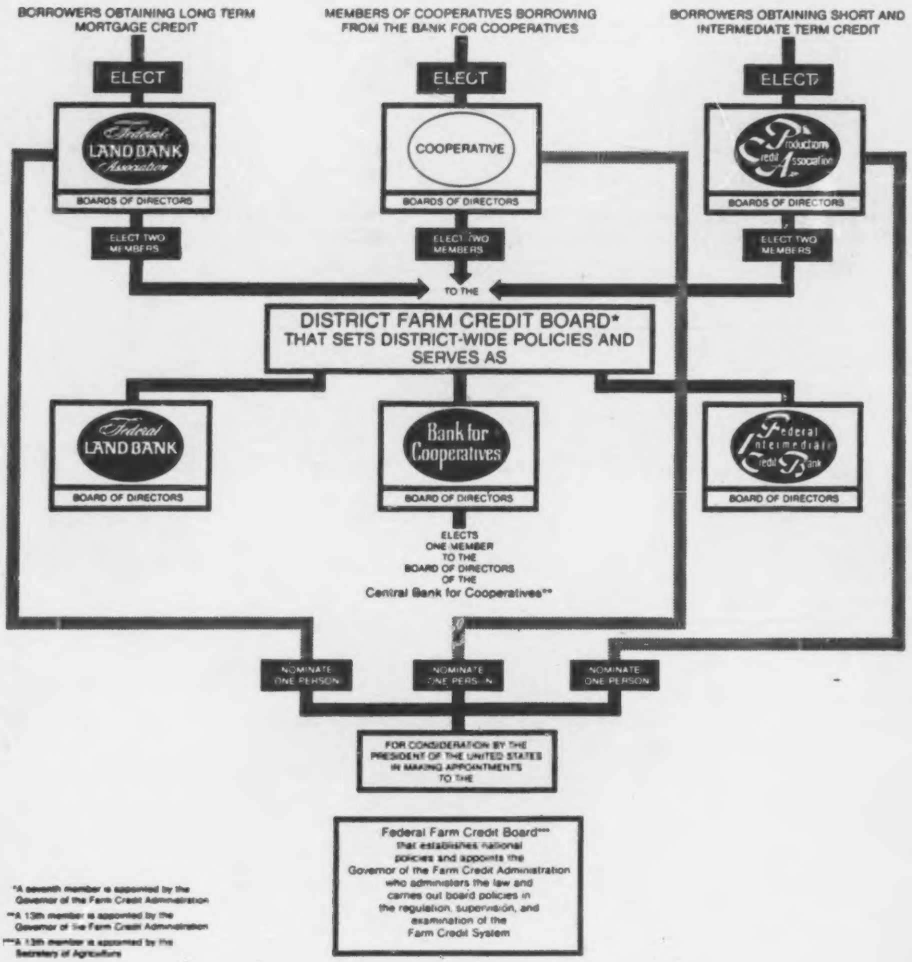
Donald E. Wilkinson, Governor
C. T. Fredrickson, Senior Deputy Governor
Kenneth J. Auberger, Deputy Governor, Office of Examination
Larry H. Bacon, Deputy Governor Office of Administration
Albert J. Haslebacher, Deputy Governor Office of Supervision
Frederick R. Medero, General Counsel
Kim C. Bowersox, Director, Congressional and Public Affairs

The Farm Credit Administration's chief executive officer, the Governor, is appointed by the Federal Farm Credit Board. The Governor, together with his staff, is responsible for carrying out the Board's policies.

The Farm Credit Administration supervises, examines, and regulates the Farm Credit System in the public interest. Each institution of the System is a user-owned and controlled cooperative association. Basic responsibility for directing and managing Farm Credit institutions is vested in member-elected boards of directors and their selected management. FCA supervision is designed to oversee the actions of the district boards to ensure sound management of the banks and associations. Operating decisions are decentralized within the System to the user level as long as System objectives are respected and sound business is conducted.

Displayed below is the organizational structure of the Farm Credit System.

IN EACH OF THE 12 FARM CREDIT DISTRICTS

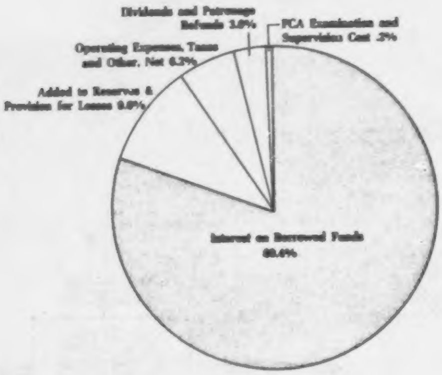

BORROWERS OBTAINING LONG TERM MORTGAGE CREDIT
MEMBERS OF COOPERATIVES BORROWING FROM THE BANK FOR COOPERATIVES
BORROWERS OBTAINING SHORT AND INTERMEDIATE TERM CREDIT
ELECT
ELECT
ELECT
Federal LAND BANK Association
BOARDS OF DIRECTORS
COOPERATIVE
BOARDS OF DIRECTORS
Production Credit Association
BOARDS OF DIRECTORS
ELECT TWO MEMBERS
ELECT TWO MEMBERS
ELECT TWO MEMBERS
TO THE
DISTRICT FARM CREDIT BOARD* THAT SETS DISTRICT-WIDE POLICIES AND SERVES AS
Federal LAND BANK
BOARD OF DIRECTORS
Bank for Cooperatives
BOARD OF DIRECTORS
Federal Intermediate Credit Bank
BOARD OF DIRECTORS
ELECTS ONE MEMBER TO THE BOARD OF DIRECTORS OF THE Central Bank for Cooperatives**
NOMINATE ONE PERSON
NOMINATE ONE PERSON
NOMINATE ONE PERSON
FOR CONSIDERATION BY THE PRESIDENT OF THE UNITED STATES IN MAKING APPOINTMENTS TO THE
Federal Farm Credit Board*** that establishes national policies and appoints the Governor of the Farm Credit Administration who administers the law and carries out board policies in the regulation, supervision, and examination of the Farm Credit System

*A seventh member is appointed by the Governor of the Farm Credit Administration

**A 13th member is appointed by the Governor of the Farm Credit Administration

***A 13th member is appointed by the Secretary of Agriculture

Farm Credit System Costs
As of June 30, 1981



This chart shows the costs that Farm Credit borrower-owners pay to operate their System and to obtain the credit they need for their farm, ranch, and aquatic operations.

The chart illustrates the self-supporting character of the System. The borrower-owners pay the borrowed funds and all the expenses, including the Government examination and supervision provided by FCA.

Farm Credit Administration Expenses

Year	FCA Expenses ($ Amount)	Percentage Increases in FCA Expenses	FCA Expenses ...as a Percent of Loans Outstanding	FCA Expenses ...as a Percent of Loans Made
1977	$ 8,239,000	+13.3	.020	.022
1978	8,828,000	+ 7.1	.019	.021
1979	10,551,000	+19.5	.019	.020
1980	11,288,000	+ 7.0	.017	.017
1981	12,796,000	+13.4	.017	.018

Farm Credit Adminstration expenses have increased yearly; however, in comparison to the System's loan activity, Farm Credit Administration expenses are small.

FARM CREDIT ADMINISTRATION

Purpose Statement

The Farm Credit Administration is the independent Federal agency responsible for the regulation, supervision, and examination of the borrower-owned banks and associations that comprise the cooperative Farm Credit System. The administration also coordinates certain activities of these institutions in the best interest of their borrowers.

These activities are carried out under the direction of a 13-member Federal Farm Credit Board. Twelve of its members, one from each Farm Credit district, are appointed for 6-year terms by the President of the United States. These members are subject to confirmation by the U.S. Senate and can serve only one term. The 13th member is appointed by the Secretary of Agriculture and serves at the pleasure of the Secretary.

Typical activities of the Farm Credit Administration include assistance in financing and investments, credit analysis, development of appraisal standards and policies, preparation of reports and budgets, and preparation and distribution of information on agricultural credit and the services offered by the various institutions of the System.

The Farm Credit Administration also issues regulations governing the lending activities and operations of the institutions under its supervision.

Originally established as an independent agency by Executive Order No. 6084, effective May 27, 1933, the Farm Credit Administration was transferred to the Department of Agriculture on July 1, 1939. It remained in the Department of Agriculture until the Farm Credit Act of 1953 reestablished it as an independent agency under the direction of the Federal Farm Credit Board.

The administration and the institutions under its supervision now operate under authorities contained in the Farm Credit Act of 1971, PL 92-181, effective December 10, 1971, as amended by PL 96-592, effective December 24, 1980. The Act provides for the farmer-owned cooperative system to make credit available to farmers and ranchers, for rural residences, and to cooperatives and other borrowers for farm related businesses upon which farming operations are dependent, to provide for an adequate and flexible flow of money into rural areas, and to modernize and to consolidate existing farm credit law to meet current and rural credit needs.

On September 30, 1981, the Farm Credit Administration had 255 full-time permanent employees, 98 of whom were located in the field. These field employees are primarily bank and association examiners and supporting clerical staff.

All expenses of the activities and personnel of the Farm Credit Administration are paid by assessments collected from the banks of the Farm Credit System.

Administrative Expenses

Approved by the Federal Farm Credit Board and funded by
assessments against earnings of the 37 Farm Credit Banks

Budget estimate, 1983	$17,954,000
Budget estimate, 1982	16,372,000
Increase	1,582,000

The increase of $1,582,000 for 1983 over 1982 results from the following:

(1)	Net effect of within grades, promotions and changes in personnel benefits	$683,000
(2)	Increased travel costs	389,000
(3)	Increased cost of communications, utilities and rentals	167,000
(4)	Increase in printing and reproduction costs	10,000
(5)	Increased cost of supplies, equipment and other items	333,000
		$1,582,000

Program (in thousands)

	1981 actual	1982 revised estimate	1983 estimate	Change 1982 to 1983
Supervision and examination of Farm Credit banks and associations	$12,798	$16,372	$17,954	$1,582
Unobligated balance	1,234	—	—	—
Budget total	$14,032	$16,372	$17,954	$1,582

Assessment for Operating Expenses
Assessments based upon estimated expenditures are collected from banks in the Farm Credit System and are available for administrative expenses. Obligations are incurred within fiscal-year budgets approved by the Federal Farm Credit Board as provided in Public Law 92-181.

Short-Term Investment Fund
This fund is available to the Governor of the Farm Credit Administration as a revolving fund for investment in the Class A capital stock of the Federal intermediate credit banks and Class A and Class C stock of the production credit associations.

On December 31, 1968, the Government's investment in the Class A stock of the Federal intermediate credit banks was retired in full, thus making them privately owned. Of the $107,496,625 paid the Treasury for the capital stock, $43,839,120 was credited to proprietary receipts of the general fund and $63,657,505 was returned to the revolving fund. The last of the Government's investment in the production credit associations was also repaid. There is now $111,707,505 available in this fund but no investment of Government capital in the Federal intermediate credit banks and production credit associations is anticipated in the near future.

Banks for Cooperatives Investment Fund
This fund is available to the Governor of the Farm Credit Administration for investment in Class A capital stock of the banks for cooperatives.

The last of the Government's investment in the banks for cooperatives was retired on December 31, 1968, which made them privately owned. The amount in the fund available to the Governor is $148,091,211. No investment of the Government capital in any of the banks is anticipated in the near future.

Passenger Motor Vehicle
The Farm Credit Administration hires one automobile. This automobile is used primarily by the Governor's office for transportation to and from official meetings and conferences in Washington, D.C., with other Government officials, and with congressional bodies.

The 1983 budget estimates do not include funding for the purchase of any automobiles.

Position Justifications

Credit and Operations Specialist
Public Law 97-35, dated August 13, 1981, requires that FCA conduct examinations of the National Consumer Cooperative Bank (NCCB). The NCCB is a relatively new entity which is distinct from those in the Farm Credit System that are familiar to FCA examiners. This individual will also assist in examinations related to the expected growth in international lending by large agricultural cooperatives and growth in lending to rural electric cooperatives, both of which are areas also of recent significant interest to the Farm Credit System.

Personnel Management Specialist
FCA Personnel Regulations were revised in October 1980. The new regulations eliminated many of the specific mandatory requirements of the past. Emphasis is now focused upon FCA's supervisory role in human resources management. This emphasis requires on-site evaluation and follow-up by professional human resources specialists.

Evaluation of the 37 Farm Credit banks achieved significant momentum during 1981, averaging about one per month. This is only one-third of the System, however, each year. This position will provide the resource to do the comparative analysis of information obtained on-site, as well as on data reported to FCA regularly. It will provide added strength to our ability to improve the substance and quality of our supervisory program.

Public Affairs Officer
The Farm Credit System's increasing share of the agricultural credit market has resulted in an increasing public demand for information from the Farm Credit Administration. It has also resulted in a need for more intensive supervision of the marketing and public relations activities of the 37 Farm Credit banks. This position will permit bank reviews on an 18-month cycle compared to the current cycle of 36 months.

THE FARM CREDIT SYSTEM

The cooperative Farm Credit System operates under authorities contained in the Farm Credit Act of 1971. The banks and associations which comprise the System are supervised and examined by the Farm Credit Administration, an independent agency in the Executive Branch of the Government.

The System provides credit and closely related services to farmers, ranchers, producers and harvesters of aquatic products, agricultural and aquatic cooperatives, rural homeowners, and certain businesses providing farmers with services essential to their on-farm operating needs.

To fulfill these purposes, the country is divided into 12 Farm Credit Districts. At the same location in each district there is a Federal land bank, a Federal intermediate credit bank, and a bank for cooperatives. There is also a Central Bank for Cooperatives in Denver, Colorado.

Federal Land Banks — Federal Land Bank Associations

The Federal land banks make loans with terms of from 5 to 40 years through 482 Federal land bank associations. These loans are secured by first liens on farm and rural real estate.

Loans are made for a variety of purposes including the purchase of farm property, rural homes, real estate needed for farm related businesses, purchase of equipment, machinery, livestock, refinancing existing mortgages and paying other debts and financing other needs of the borrower.

Total credit extended to one borrower may at no time exceed 85 percent of the appraised value of the property taken as security; 97 percent if the loan is guaranteed by a Federal, state, or other agency. Each Federal land bank is limited in rural home lending to 15 percent of its total loan volume outstanding.

Federal Intermediate Credit Banks — Production Credit Associations

The Federal intermediate credit banks provide loan funds to 423 production credit associations and discount notes of eligible borrowers given to certain other institutions financing agricultural producers. They also participate with one another and with production credit associations in making loans.

Production credit associations make loans with terms up to 7 or 10 years, depending on the Farm Credit district, to farmers, ranchers, rural homeowners, and certain farm related businesses. Loans to producers and harvesters of aquatic products, however, may be made for up to 15 years.

Loans are made for a variety of purposes related to the production of agricultural products, the production and harvesting of aquatic products, the purchase, repair or maintenance of rural homes and other requirements of borrowers. At no time, however, may the total credit extended for other than agricultural purposes exceed the value of assets devoted to agricultural production or the production and harvesting of aquatic products.

The total amount of credit extended to a rural homeowner may not exceed 85 percent of the appraised value of the property. Each Production credit association is basically limited in rural home lending to 15 percent of its total loan volume outstanding.

Banks for Cooperatives

The twelve district banks for cooperatives serve marketing, supply and business service cooperatives whose headquarters are within their respective territories. To qualify for a loan at least 80 percent of the voting control of most supply and marketing cooperatives must be in the hands of farmers, ranchers, or producers or harvesters of aquatic products. Public utility, rural electric and telephone cooperatives, as well as certain farm supply cooperatives must have 60 percent farmer-members to be eligible for BC financing. To be eligible, a cooperative must also do at least 50 percent of its business with or for its members as patrons. Excepted from this requirement is business done with the United States Government and services or supplies furnished by the cooperative as a public utility. The banks also serve associations or federations of such cooperatives.

The Central Bank for Cooperatives participates with the district banks on loans which exceed their individual lending capacity.

Farm Credit Securities and Interest Rates

The Farm Credit banks obtain funds through the sale of securities by their fiscal agent in New York. To assure the acquisition of funds in an efficient and orderly manner the Farm Credit banks in January 1977 introduced the Federal Farm Credit Consolidated Systemwide Bond. On January 1, 1979, the Consolidated Systemwide Bond became the sole bond issue of the Farm Credit banks. Bonds issued separately by the Federal land banks, Federal intermediate credit banks, and banks for cooperatives prior to this date will remain available on the secondary market until their maturity.

During calendar year 1981 Farm Credit banks raised $55.0 billion in the financial markets through the sale of bonds. (Federal land banks - $20.1 billion, Federal intermediate credit banks -$24.6 billion, and banks for cooperatives - $10.2 billion.) Of this total, $8.4 billion represented new money to accommodate increasing loan volume, and $46.6 was used to finance maturing obligations. (New money — Federal land banks - $7.4 billion, Federal intermediate credit banks -$1.9 billion, and banks for cooperatives reduced outstandings by $0.9 billion.) Funds raised in 1981 were 6.6 percent greater than the $51.6 billion raised in 1980. Money raised in 1980 consisted of $10.3 billion in new money and $41.3 billion to finance maturing issues. The average interest cost for bonds during calendar year 1981 was 15.26 percent, as compared with 12.20 percent for 1980.

Federal Farm Credit Banks Consolidated Systemwide Notes are the secured joint and several obligations of the 37 Farm Credit banks. These notes, which are sold on a discount basis with a maturity of 5–270 days are used to complement short term borrowings, provide a source of interim funds between bond sales, and supply the banks with additional flexibility in securing funds during periods of unexpected demand.

Discount notes sold during 1981 calendar year totaled $40.3 billion, compared to $42.7 billion issued in 1980. The average interest cost of discount notes in 1981 was 15.91 percent as compared with 13.02 percent in 1980. The average maturity for these notes in 1981 was 28.5 days compared with 28.5 days in 1980. The average daily amount outstanding in 1981 was approximately $3.0 billion.

Monthly district average interest rates charged on farm loans by Federal land banks during 1981 increased every month from a low of 10.9 percent in January to a high of 11.9 percent in December on an unweighted basis. District average quarterly loan rates at production credit associations for agricultural loans climbed from 14.2 percent in April 1980 to 15.50 percent on October 31, 1981.

District average interest rates in 1981 on seasonal loans at banks for cooperatives fluctuated between a high of 16.5 percent in January and a low of 14.8 percent in April. (See Table 3).

Farm Credit Act Amendments of 1980

The Farm Credit Act Amendments of 1980 modified the Farm Credit Act of 1971 to update and improve the operation of the Farm Credit System. The institutions of the system were provided with additional and revised authorities to enable them to better serve the credit and related needs of their borrower-members. These authorities were implemented during 1981. Increases in loan volume resulting from the changed authorities were modest as institutions exhibited caution in their expanded role.

Cooperative Farm Credit System

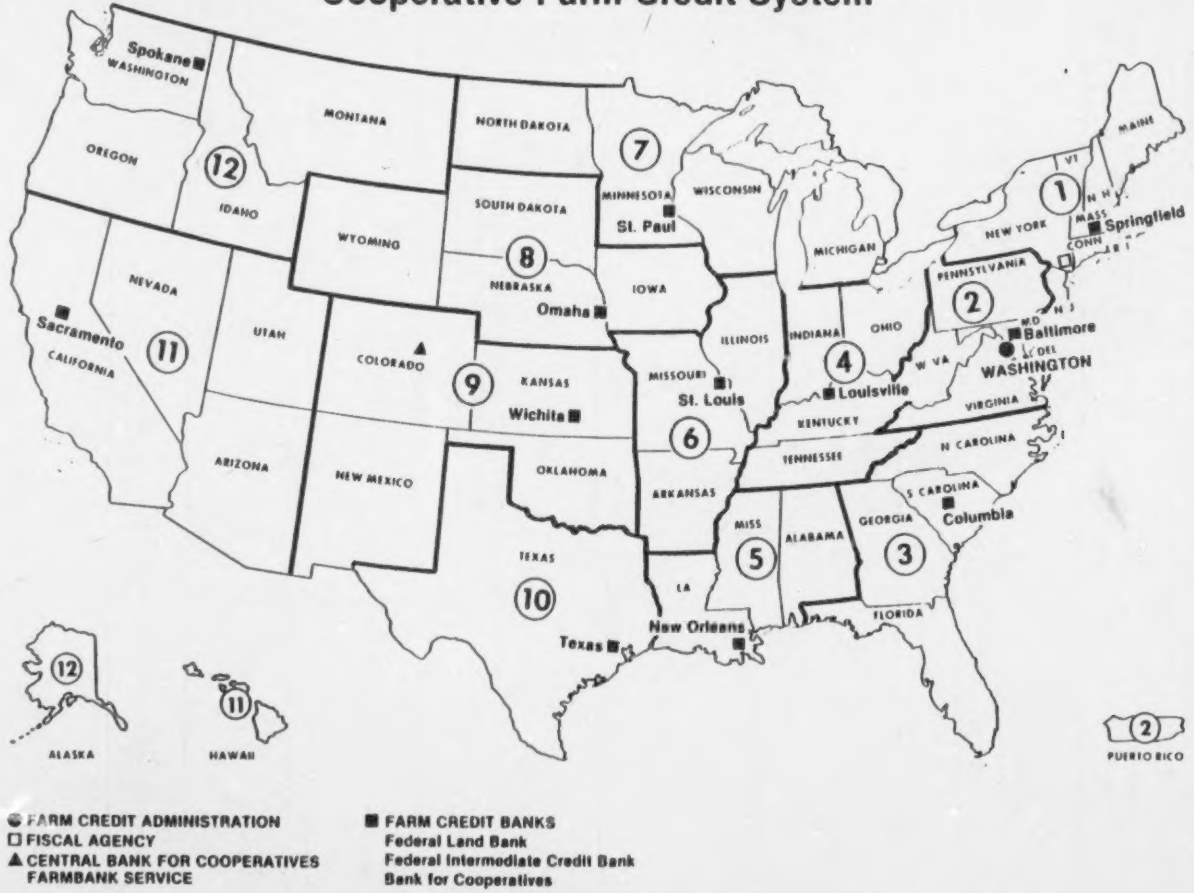

Spokane ■
WASHINGTON
OREGON
MONTANA
NORTH DAKOTA
12
IDAHO
WYOMING
SOUTH DAKOTA
7
MINNESOTA
St. Paul ■
WISCONSIN
MICHIGAN
MAINE
VT
N H
MASS
1
NEW YORK
■ Springfield
CONN
R I
PENNSYLVANIA
2
N J
MD
■ Baltimore
DEL
WASHINGTON
8
NEBRASKA
Omaha ■
IOWA
ILLINOIS
INDIANA
OHIO
W VA
VIRGINIA
NEVADA
■ Sacramento
CALIFORNIA
11
UTAH
COLORADO
9
KANSAS
Wichita ■
MISSOURI
■ St. Louis
4
■ Louisville
KENTUCKY
6
TENNESSEE
N CAROLINA
ARIZONA
NEW MEXICO
OKLAHOMA
ARKANSAS
S CAROLINA
■ Columbia
MISS
ALABAMA
GEORGIA
3
TEXAS
10
LA
5
New Orleans ■
Texas ■
FLORIDA
12
ALASKA
11
HAWAII
2
PUERTO RICO
● FARM CREDIT ADMINISTRATION
☐ FISCAL AGENCY
▲ CENTRAL BANK FOR COOPERATIVES FARMBANK SERVICE
■ FARM CREDIT BANKS
Federal Land Bank
Federal Intermediate Credit Bank
Bank for Cooperatives

Table 1 — LOANS MADE TO AGRICULTURE BY THE FARM CREDIT BANKS AND ASSOCIATIONS[1]

Lending banks and associations	Calendar year					
	1965	1970	1975	1979	1980	1981
	Millions of Dollars					
Federal land banks	887	1,017	4,411	8,397	9,629	11,400
Production credit associations	4,135	8,277	16,070	29,027	32,289	34,658
Banks for cooperatives	1,316	2,476	8,704	18,991	24,600	24,799
Federal intermediate credit banks[2]	296	621	1,166	1,592	1,768	1,856
Total loans	**6,634**	**12,391**	**30,351**	**58,007**	**68,286**	**72,713**

[1] Excluded are nonfarm rural home and farm related business loans.
[2] Loans and discounts made to other financial institutions. Excludes advance loans to PCAs.

Source: Farm Credit Administration

Table 2 — LOANS OUTSTANDING TO AGRICULTURE, HELD BY THE FARM CREDIT BANKS AND ASSOCIATIONS, JANUARY 1, 1965 - 1981[1]

Lending banks and associations	Calendar year					
	1965	1970	1975	1979	1980	1981
	Millions of Dollars					
Federal land banks	4,280	7,186	16,564	29,725	36,032	43,658
Production credit associations	2,598	5,334	10,846	18,045	19,636	21,042
Banks for cooperatives	958	1,732	3,979	8,091	9,506	9,124
Federal intermediate credit banks[2]	132	225	352	666	811	914
Total	**7,968**	**14,477**	**31,741**	**56,527**	**65,985**	**74,738**

[1] Excluded are nonfarm rural home and farm related business loans.
[2] Loans and discounts outstanding to other financial institutions. Excludes credit outstanding to PCAs.

Source: Farm Credit Administration

Table 3 — INTEREST RATES OF FARM CREDIT BANKS AND ASSOCIATIONS
January 1, 1982

Farm Credit District	Federal Land Banks[1]		Federal Intermediate Credit Banks	Production Credit Association most Prevalent Rates[2,5]	Banks for Cooperatives	
	Farm	Rural Home			Seasonal	Term
Springfield	11.50	12.50 - 14.00[3]	13.90	15.01 - 15.50	13.75 - 14.75[3]	14.75 - 15.75[3]
Baltimore	12.75	12.75	14.90	16.01 - 16.50	12.75	14.00
Columbia	11.75	11.75	13.75	14.51 - 15.00	14.00	14.50
Louisville	12.00	12.50	13.82	14.51 - 15.00	15.00	13.00
New Orleans	11.75	12.00	15.70	16.51 - 17.00	14.50	14.50
St. Louis	12.75	12.75	13.81	15.01 - 15.50	14.50	13.50
St. Paul	12.50	13.00	14.90	15.01 - 16.00	15.25	13.50
Omaha	13.00	13.00	15.35	17.01 - 17.50	13.90 - 15.40[3]	13.00 - 14.50[3]
Wichita	13.00	13.00	13.95	15.51 - 16.00	14.75	14.75
Texas	11.00	11.50	14.61	15.51 - 16.00	15.00	14.00
Sacramento	11.50	12.00	15.17	15.51 - 16.00	13.50	14.00
Spokane	12.00	12.00	15.75	15.01 - 15.50	13.50	13.50
Central Bank	—	—	—	—	[4]	[4]

[1] Current billing rate

[2] Interest rate plus loan service fees on agricultural loans.

[3] As assigned under the approved differential interest rate program.

[4] Follows district rate on participations.

[5] As of October 1, 1981.

Table 4 — NET WORTH OF FARM CREDIT SYSTEM AS OF JUNE 30, 1981

Banks and associations	Paid-in capital ($000)	Earned net worth		Total net worth ($000)
		Reserved ($000)	Unreserved ($000)	
Federal land banks	$2.351.439	$1.058.190	$903.458	$4.313.087
Federal land bank associations	2,351.453	81.040	258.045	2.690.538
Federal intermediate credit banks	993.250	363.980	124.019	1.481.249
Production credit associations	2.285.163	1.358.967	109.487	3.753.617
Banks for cooperatives	785.218	204.183	145.347	1.134.748
Grand total	**8,766,523**	**3,066,360**	**1,540,346**	**13,373,239**
Less intercorporate items	3.286.787	278.404	—	3.565.191
Net total	**$5,479,736**	**$2,787,956**	**$1,540,346**	**$9,808,048**

Table 5 — GROSS ASSETS OF FARM CREDIT SYSTEM AS OF JUNE 30

Banks and associations	1979 ($000)	1980 ($000)	1981 ($000)
Federal land banks	$30.237.850	$38.116.227	$45.894.900
Federal land bank associations	1.925.429	2.377.441	2.843.301
Federal intermediate credit banks	16.674.990	20.915.004	23.292.990
Production credit associations	18.826.289	23.112.205	25.591.942
Banks for cooperatives	7.886.094	9.178.998	10.298.336
Grand total	**75,550,652**	**93,699,875**	**107,921,336**
Less intercorporate items	17.855.057	21.973.353	24.378.745
Net total	**$57,695,595**	**$71,726,522**	**$83,542,724**

Table 6 — AMOUNT OF LOANS AND DISCOUNTS MADE BY FARM CREDIT SYSTEM, YEAR ENDED JUNE 30

Banks and associations	1979 ($000)	1980 ($000)	1981 ($000)
Federal land banks	$7.723.667	$10.700.253	$10.716.636
Federal intermediate credit banks to OFI's	1.416.918	1.697.840	1.831.691
FICB participations with PCAs	31.642	67.956	60.855
Production credit associations	26.406.211	31.983.189	34.660.522
Banks for cooperatives	15.727.940	20.949.506	24.426.067
Total	**$51,306,378**	**$65,398,744**	**$71,695,771**

Table 7 — AMOUNT OF LOANS AND DISCOUNTS OUTSTANDING FOR FARM CREDIT SYSTEM, AS OF JUNE 30

Banks and associations	1979 ($000)	1980 ($000)	1981 ($000)
Federal land banks	$28.462.406	$35.579.141	$42.692.982
Federal intermediate credit banks to OFI's	589.273	754.980	958.398
FICB participations with PCAs	17.011	33.132	27.728
Production credit associations	16.977.890	20.680.545	22.719.155
Banks for cooperatives	7.152.924	7.583.686	8.806.766
Total	**$53,199,504**	**$64,631,484**	**$75,205,029**

Table 8 — SELECTED COMPARATIVE DATA ON FEDERAL LAND BANK AS OF JUNE 30

Item	1979 ($000)	1980 ($000)	1981 ($000)
Federal land banks			
Gross assets	$30,237,850	$38,116,227	$45,894,900
Loans outstanding:			
Number	526,914	578,189	620,412
Amount	$28,462,405	$35,579,141	$42,692,982
Loans closed during year ended:			
Number	84,064	102,090	89,514
Amount	$7,723,667	$10,700,253	$10,716,636
Repayment of loans during year ended[1]	$1,571,570	$1,615,668	$1,689,721
Real estate acquired during year ended:			
Number	104	70	93
Investment	$11,777	$5,440	$11,385
Real estate on hand:			
Number	96	69	64
Investment	$9,904	$6.798	$6,238
Bonds outstanding	$24,474,655	$31,101,641	$37,186,916
Net worth:			
Capital stock owned by Federal land bank associations	$1,594,431	$1,972,245	$2,351,439
Legal reserve	628,310	752,303	936,180
Surplus reserve	114,510	122,010	122,010
Earned surplus	506,275	646,914	903,458
Total net worth	**$2,843,526**	**$3,493,472**	**$4,313,087**
Federal land bank associations			
Number of associations	512	502	489
Net worth:			
Capital stock owned by borrowers	$1,584,770	$1,966,446	$2,351,453
Legal reserve and surplus	225,382	275,870	339,085
Total net worth	**$1,810,152**	**$2,242,316**	**$2,690,538**

[1] Includes principal matured, special principal payments, loans paid off prior to maturity.

Table 9 — SELECTED COMPARATIVE DATA ON FEDERAL INTERMEDIATE CREDIT BANKS AS OF JUNE 30

Item	1979 ($000)	1980 ($000)	1981 ($000)
Gross assets	$16.674.990	$20.915.004	$23.292.990
Loans and discounts outstanding	15.636.439	19.278.323	21.290.137
Loans and discounts made	11.975.704	15.268.110	17.637.327
Repayment of loans	9.605.601	11.930.634	15.023.250
Unmatured debentures and bonds outstanding	13.584.783	17.642.008	19.635.241
Net worth:			
Capital stock owned by Production credit associations	658.547	771.237	935.334
Participation certificates-Other financing institutions	34.782	46.242	57.916
Surplus reserve	63.068	63.068	63.068
Surplus	18.050	18.050	18.050
Legal reserve - Allocated to patrons & reserve for contingencies	204.908	239.578	300.912
Undistributed earnings	55.769	110.230	105.969
Total net worth	**$1,035,124**	**$1,248,405**	**$1,481,249**

Table 10 — SELECTED COMPARATIVE DATA ON PRODUCTION CREDIT ASSOCIATIONS AS OF JUNE 30

Item	1979 ($000)	1980 ($000)	1981 ($000)
Gross assets	$18.826.289	$23.112.205	$25.591.942
Number of associations	426	425	423
Number of members	459.147	467.149	468.288
Amount of loans made during year ended	$26.406.202	$31.983.189	$34.660.018
Number of loans outstanding	364.658	380.897	390.729
Amount of loans outstanding	$16.977.865	$20.680.545	$22.719.155
Total amount of repayment of loans during year ended	$16.209.669	$18.959.776	$23.906.282
Amount of renewals	$7.661.399	$9.220.775	$11.798.471
Net worth:			
Paid-in surplus - FICB	$5.750	$3.750	$2.550
Capital stock owned by Federal intermediate credit banks	—	—	—
Capital stock owned by members	$1.746.495	$2.094.152	$2.285.163
Equity reserve	10.108	10.024	8.099
Surplus	939.118	1.088.303	1.348.318
Unapplied earnings	61.859	100.921	109.482
Total net worth	**$2,763,330**	**$3,297,150**	**$3,753,617**

Table 11 — SELECTED COMPARATIVE DATA ON BANKS FOR COOPERATIVES AS OF JUNE 30

Item	1979 ($000)	1980 ($000)	1981 ($000)
Gross assets	$7,886,094	$9,178,998	$10,298,336
Number of borrowing cooperatives	3,528	3,262	3,365
Loans made during year ended	$15,727,940	$20,949,506	$24,426,067
Repayment of loans during year ended	$11,142,029	$12,508,788	$14,170,282
Loans outstanding	$7,152,922	$7,583,686	$8,806,766
Unmatured debentures and bonds outstanding	$5,885,478	$7,299,738	$7,791,709
Net worth:			
Capital stock owned by borrowers and others	$571,333	$680,299	$785,218
Surplus - Reserved	88,111	88,111	88,111
Surplus	23,540	24,386	25,742
Surplus - Allocated to patrons	72,169	88,192	116,072
Undistributed earnings	43,852	76,794	119,605
Total net worth	**$799,005**	**$957,782**	**$1,134,748**

INTRODUCTION OF ASSOCIATES

Senator **Cochran**. Governor Wilkinson, we welcome you and your colleagues. I understand you are accompanied today by Mr. Frederick Medero, the General Counsel, and Mr. C. T. Frederickson, Senior Deputy Governor. We welcome all of you, and if you have any other colleagues accompanying you, we invite you to introduce them.

EROSION OF FARM ECONOMY

Mr. **Wilkinson**. Thank you very much, Mr. Chairman. We are pleased again to be able to be here with you.

You have before you, as you have acknowledged, our report to Congress on the activities of the Farm Credit Administration. FCA is the supervisory body for the Cooperative Farm Credit System. We will flag only a few points in that report, and then we will be pleased to attempt to respond to your questions.

I think, Mr. Chairman, that you and other members of this committee need not be reminded that we have been functioning in a rather difficult year economically for agricultural producers and those who lend to them. In 1980, we found that our original estimates of what would be taking place did not hold true, and as a result we saw a very low net farm income in 1980. We saw further erosion in 1981, and we have really little reason to hope for improvement in the agricultural income situation in 1982.

The key problem is that farmers—as others—are caught up in the inflationary spiral. In the last 3 years prices received by farmers have increased barely 4 percent while farm production costs have escalated over 22 percent. This is the essence of the current net farm income situation.

AGRICULTURAL CREDIT

Speaking now specifically of agricultural credit, we would note the increase in farm debt which has taken place. As we ended 1981, total farm debt was standing at $195 billion. That is an 11.5-percent increase during this past year. We anticipate it will cross the $200 billion mark somewhere this fall. Total farm debt is split almost equally between long-term real estate financing and short-term operational debt. The Government had the biggest increase in share of farm debt in 1981, and we speak here, both of the Farmers Home Administration and the Commodity Credit Corporation, where there has been a significant jump of 39 percent. FmHA, economic emergency and natural disaster have contributed to the increase.

FARM CREDIT SYSTEM

The farm credit system, which is supplying one-third of the credit used by farmers increased loan volume 15.2 percent this past year, and right now stands at approximately $78 billion outstanding to some 1 million farmers and ranchers and to some 3,500 cooperatives. The Federal land banks had the greatest increase in the amount outstanding during the past year and now stands as the No. 1 lender in long-term farm real estate financing. The commercial banks are still the dominating lender in farm operating credit. In 1981, commercial banks supplied 36 percent, and production credit associations of our system supplied 25 percent of the operating credit borrowed by farmers. The banks for cooperatives actually saw a decrease for total lending this last year as they were attempting to keep their cost for credit down.

Speaking of the cost, I would refer you now to one of the big problems.

FORECLOSURES IN FARM CREDIT SYSTEM

Senator **Andrews**. Mr. Chairman, while we are talking about problems, could I ask one question? How many foreclosures did you have in the farm credit system last year? How many did you have the year before? Can you give me the foreclosures you have had in the last 3 years?

Mr. **Wilkinson**. We have been monitoring this, and it is a concern to us. I would first say that foreclosures have not yet been a significant number in the total farm credit system.

Senator **Andrews**. I know, but no one is more aware of the problem in the farm credit system than Senator Cochran and me. We both live in agricultural States, and both have a deep interest in agriculture. We have heard all the problems, and we are aware of the statistics. We know what high interest rates do. We know what low farm prices do. We know what the vagaries of weather and export embargoes and all the rest do. I would like to know what foreclosures your system has had for the last 3 years. Do you have them?

Mr. **Wilkinson**. We have our first indication where we are in 1982.

Terry, do you want to share what you have in front of you there regarding delinquencies and foreclosures.

Mr. **Frederickson**. First of all, Senator, on the foreclosures in 1981, for the full year 1981, our numbers at this point indicate that there were about 300 in the land bank system.

Senator **Andrews**. How many in 1980?

Mr. **Frederickson**. We do not have the numbers for 1980.

Senator **Andrews**. Why not?

Mr. **Frederickson**. We did not collect bankruptcy statistics until very, very recently.

Senator **Andrews**. What about foreclosure statistics?

Mr. **Frederickson**. No.

Senator **Andrews**. Don't you have the figure somewhere in your computer? Could you find them?

Mr. **Frederickson**. We could probably put them together.

Senator **Andrews**. Could you supply them for the record? I assume you don't have them for 1979 either.

Mr. **Frederickson**. No, we do not, but we could provide them to you I think. That probably sounds very peculiar to you, sir. The reason we don't collect this data is because foreclosures have been such an absolutely negligible number until quite recently. We have begun to do that, and the hard numbers we have for you today are the result of that collection.

Senator **Andrews**. But you do have the facts in your computers that would allow you to extricate the number of foreclosures?

Mr. **Frederickson**. Yes, I think so.

Senator **Andrews**. I would appreciate very much, Mr. Chairman, if they could provide the number of foreclosures for the last 10 years.

Senator **Cochran**. If you could furnish that information to the subcommittee it would be appreciated.

[Clerk's note.—See page 347 for information referred to above.]

Senator **Andrews**. Thank you very much, Mr. Chairman.

Senator **Cochran**. Governor Wilkinson, you may continue.

Mr. **Wilkinson**. We appreciate your concern in having specifics, and we are attempting to have as much current information as possible.

COST OF CREDIT

The second item that we are emphasizing is the severity of the cost of credit which is taking approximately 13 percent of all the production cost of farmers to carry their debt load. This is a far higher percentage than it has been in past years. One of the difficulties that the Farm Credit System has is that its rates are subject to the volatility of the public money market itself. We saw that evidenced in the last 6 months of 1981 when in August we had to pay 17.85 percent interest for 6-month money, and as recently as November, the price dropped to a low of 11.5 percent. It is difficult for a lending institution to manage its affairs and more difficult for borrowers to manage their affairs when you are dealing with such volatility. The important point here is that, unlike the difficulties that the savings and loans are having, the Farm Credit System operates under a variable rate interest program. Because this program enables us to average high rates into low rates, the interest rates paid by our borrowers has been escalating gradually and not in such a volatile manner.

This trend is depicted in graphs on page 11 and 12 of our report—the comparison of interest rates, over on the land bank side as compared to the life insurance and the commercial banks on real estate, and on page 12 in the nonreal estate side. The average interest rate paid by farmers and ranchers to the land banks in 1981 was 11.6 percent. On the operating side, the average rate charged by production credit associations in 1981 ran from 12 to 15 percent, averaging about 14.5 percent.

QUALITY OF CREDIT

The quality of credit is a key concern today, and on page 14 of our report we speak to that issue. Credit quality in the Farm Credit System is not, at this early stage, evidencing the decline some had anticipated. You will note that in the Farm Credit System there are four categories of loans—acceptable, problem, vulnerable, and loss. You will note the trend in the distribution of loans in these categories from 1971 to 1981 on the production credit side. There has been a decline in the "acceptable" category since 1979. It was 87.7 percent in 1979; in 1980 it dropped to 85.9 percent of all the loans, and in 1981 it dropped to 84.5 percent, and we are watching this as we go on into 1982. While there has been an increase in the "problem" category, the significant thing is that we are still dealing in small percentages. When you look at the vast number of loans and you compare the problems, however, at the production credit side last year, the System still lost over $26.5 million. The land bank side, of course, is far more stable at this particular stage.

The Farm Credit System's share of the market is growing, but the commercial banks are still very competitive. We would like to see all of these lending institutions remain in agriculture, and this, frankly, is of concern to us.

Mr. Chairman, we will be pleased to respond to your questions about our annual report or other areas which you or other members of the committee may wish to explore with us.

Senator COCHRAN. Thank you, Governor. We appreciate your being here and providing us with the report and highlighting it for us.

FEDERAL INTERMEDIATE CREDIT BANK

I heard just yesterday that the Federal Intermediate Credit Bank is turning down some loans to farmers even though they have sufficient equity, because they cannot project a profit during this next year. Is that true, to your knowledge, or have you any information about the policy now of the Federal Intermediate Credit Bank?

Mr. WILKINSON. Yes, we would like to speak to that, because we are urging the farm credit system lenders to evidence forbearance in every way possible. Mr. Frederickson, I think, would be in the best position, Mr. Chairman, to discuss the actual forbearance programs that we have and what the significant credit factors which must be evaluated are.

Terry, please.

Mr. FREDERICKSON. Well, the system's long standing policy concerning borrowers in stress is to continue to forbear as long as it appears there is a reasonable chance for their recovery.

Senator COCHRAN. Does forbear mean not make the loan or not foreclose?

Mr. WILKINSON. To stay with, to continue to finance in most cases.

That, of course, finally comes down to a matter of judgment, and not all those judgments are going to be right on either side of the table necessarily, but generally we think that policy is administered quite well.

FARM INCOME PROJECTIONS FOR 1982

Senator COCHRAN. What are your projections for this year's income for farmers?

Mr. WILKINSON. For this year, 1982, our projections for net farm income range from $13 to $17 billion. Now, this range is wide, but greater specificity is not possible because of a number of factors that can produce sudden shifts, up or down, in net farm income. The significant thing is that even the top end of this range is very substantially lower even than it was in 1981. We are kind of gloomy.

Senator **Cochran**. Senator Andrews.

Senator **Andrews**. You and I know this is about the lowest net farm income we have had for a good long time. It doesn't really tell the story. Can you give us the figure of, say, the percentage of farmers who had net income and the percentage of farmers who actually had a loss? Is that available in your shop someplace? Obviously, you don't have the resources of the Department of Agriculture, but learning we are going to have a net income of $13 to $17 billion doesn't tell the story nearly as well as the figure that says this percentage of the farms will have a net income. Can you give us any insight in that?

Mr. **Frederickson**. We could give you some numbers which would certainly give a partial answer to that question. To do that on any kind of a blanket basis would be enormously expensive. We do have some information on a pretty substantial number of borrowers which would provide some indication.

FARMERS USING PCA

Senator **Andrews**. If you could give it as the percentage of the group of farmers in the land bank system or group of farmers that use PCAs.

Mr. **Frederickson**. The land bank system would be impossible.

Senator **Andrews**. I would think so. That is why I switched to PCAs, because the PCAs are the ones you could get it from. So, give us a percentage of the farmers who are utilizing PCAs who have a net income.

Mr. **Frederickson**. You are on a very key point, because if you look at the overall balance in agriculture, the debt to asset ratio is still less than 17 percent. We know that for commercial farmers, those in the $40,000 sales and above, that ratio is doubling; they have twice the debt to carry.

Senator **Andrews**. That is one of the things that troubles me also. I remember 7 or 8 years ago, Governor, I had an exchange with one of your predecessors and asked about the wisdom of loaning 75 percent of the price of land and suggested maybe that was doing a greater disservice to the farmer retiring and going to Florida than it was to the farmer still out there producing, because it encouraged inflation of land. Are you finding now with the lower income in agriculture that the land values are beginning to come down to the point where the value of land is becoming tangent with the amount of loan you have against it?

Mr. **Wilkinson**. We are finding a significant plateauing of appreciation in land values this past year. Instead of 15- to 18-percent increase in values, it is more like 6 to 7 percent this past year. This is causing a lot of farmers to take another look at whether they can base their operations on escalating land values or on operating income.

Senator **Andrews**. And they have taken it out of the hide of escalating land values, because you have either increased their credit through the land bank or you have given them a greater PCA loan because of the additional equity in the land rather than the income and operating.

LONG-TERM, LOW-INTEREST LOANS

One final question and I won't impose further on my chairman. I have another committee I have to chair in a minute or so. But in the land bank you have 40-year loans; they are essentially long-range loans, and many of them in your portfolio must be at low interest rates. You are in somewhat the same boat that savings and loans are in. How are you meeting that problem given today's interest rate?

Mr. WILKINSON. Frankly, Senator, there are very few land bank loans at fixed rate, which is what you were speaking of. It was 1971-72 when FLBs and PCAs were granted the authority to switch to the variable interest rate programs. Under these programs, the cost of money to the long-term borrowers has been escalating gradually. I indicated the average land bank interest rate this past year was 11.6 percent which enables system institutions to avoid problems now facing many savings and loan associations.

LAND BANK LOANS AT VARIABLE INTEREST

Senator ANDREWS. What percentage of your land bank loans is now at variable interest rates ? All of them in the last 10 years are at varible interest rates.

Mr. WILKINSON. What percentage?

Mr. FREDERICKSON. It varies slightly from bank to bank, but I think no bank would have less than 95 percent of its loan volume on a variable interest rate basis. So there is a very, very small segment at the old rate.

Senator ANDREWS. Thank you very much, Mr. Chairman.

Senator COCHRAN. Thank you, Senator Andrews.

PROJECTED INTEREST RATES ESTIMATES

What kind of projections are you making for interest rates during this next year? I know you have to look ahead and make some estimates. Could you share with us what your estimates are?

Mr. WILKINSON. Yes. You know it is difficult to make estimates, because a lot of it depends on what the administration's efforts will be as well as how Congress will react. We are saying to our borrowers, do not expect low interest rates or interest rates significantly below current levels. I have indicated that interest rates have sunk 15 to 16 percent for production credit associations. Unless we see a rapid jump in our cost of money, we do not anticipate a need to increase the current interest rate level. We are now rolling over some very costly money. That 17.85-percent money was 6 months, and it is now rolling over and it has been replaced with 11-, 12-, and 13-percent money. As that is averaged into the portfolio, there may be an indication that farmers will not have to pay increasing interest rates for their short-term loans in 1982. We might be able to hold it fairly stable.

Senator COCHRAN. What are your projections for 1983? Have you made any?

Mr. WILKINSON. We have not made any.

Senator COCHRAN. Do you anticipate your rates are going to continue to be lower than those of the commercial banks?

Mr. **Wilkinson**. Because we are on a variable interest rate program, the system's cost of money is on the low side when rates are escalating, and as rates start to decline, the system has to respond very rapidly so it is not behind the commercial banking industry. We believe that the system has very appropriately handled its cost picture and will be very competitive with the commercial industry as we see some decline in the cost of money.

BENEFIT OF FMHA LOANS TO YOUNGER FARMERS

Senator **Cochran**. The President has requested a $135 million increase in farm operating loans for the Farmers Home Administration. Will this additional funding actually benefit the young farmer?

Mr. **Wilkinson**. It would have a significant effect, because the Farmers Home Administration is doing a very good job of evaluating what it has in its portfolio and graduating to commercial lenders those who they believe can be graduated. As a commercial lender, our System is attempting to work with them.

Senator **Cochran**. That was going to be my next question. How well are you cooperating there to make sure we have an adequate financing opportunity for farmers who do want to continue to farm this year?

Mr. **Wilkinson**. Very closely, but they will need that help to work with young farmers who cannot evidence to the commercial banks or to the production credit associations that they are, at that early state, credit worthy. They need to have the Farmers Home assistance.

Senator **Cochran**. Senator Mattingly, do you have any questions?

Senator **Mattingly**. Not at this time. I may send some to you in writing.

Mr. **Wilkinson**. I would be pleased to respond.

Senator **Cochran**. If we do have any other questions that occur to us that we haven't covered, we would appreciate your responding to them.

STATUS OF LAND BANK MOVE TO JACKSON, MISS.

Do you know the status of the move of the land bank to Jackson, Miss., from New Orleans? How is that coming along?

Mr. **Wilkinson**. Yes. That, of course, has been approved by the Farm Credit Administration. The banks have evidenced the economic feasibility of the move. They have acquired some property in Jackson. They are working on their plans. They have a budget. We are working closely with them, and it is in process.

Senator **Cochran**. Do you have any projections about when the facility might be completed and when the move will occur?

Mr. **Wilkinson**. They are estimating that they will have their building completed and be able to consummate the move in 1984.

SUBMITTED QUESTIONS

Senator **Cochran**. That is good. Thank you very much for being here. We appreciate your cooperation with the committee. We have additional questions which we will submit for your response. They will be placed in the record at this point.

[The following questions were not asked at the hearing, but were submitted to the Farm Credit Administration for response subsequent to the hearing:]

FARM CREDIT ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR COCHRAN

Production Financing in 1982

MR. COCHRAN. We hear daily from farmers around the country who are finding it increasingly difficult to obtain financing for this year's farming operations. With planting time for many commodities soon to be upon us, what is your analysis of the current environment for farm loan programs as compared to last year?

MR. WILKINSON. Farmers have just been through two weak income years, and are in the midst of a third. It is apparent to everyone that financial situations have become stretched for some of them, and the short-term outlook isn't optimistic for any of them.

All lenders, including the Farm Credit System, are facing more cases where a judgment must be made. Is the farmer likely to survive the current stress? Would he be better off financially to discontinue or scale back his operation? Would continuing to finance him place an unacceptably high risk on the Farm Credit System, and thus on all other farmers who depend on the System?

A very small proportion of farmers are going to hear negative answers, but a larger number are going to have to plan their finances carefully. It will be a year of conservative plans for borrowers and lenders.

The System's loan portfolio, overall, is in relatively good shape in 1982, but that is partly due to the repayments arising from the massive use of the CCC loan programs. We would expect farm production to be financed adequately for 1982. But prospects for 1983 will become critical to the situation for larger numbers of farmers and their lenders.

Farm Credit System Loans Outstanding

MR. COCHRAN. What is the total of Farm Credit System loans outstanding, and how does that total compare to this time last year?

MR. WILKINSON. Numbers of farm loans outstanding are as follows:

	January 1		
	1981	1982	Change
FLB 1/	525,827	561,430	+35,603
PCA 1/	364,842	371,922	+7,080
BC	3,486	3,493	+7

1/ Agricultural loans only. In addition, the FLB system had 84,824 rural home loans and 118 farm related business loans at the beginning of 1982. The PCA system had an additional 3,851 rural home loans, 1,399 farm related loans, and 3,014 aquatic loans.

FCS Penetration

MR. COCHRAN. What percentage of American farm operations does the Farm Credit System finance?

MR. WILKINSON. USDA estimates there are about 2.4 million farms of all sizes. We do not know what proportion of them are debt-free, but it would be a significant share of the smaller units. System data are on loans, rather than farm operations, and a given farmer may have more than one loan. Also, nonoperating landlords may be financed as well as farm operators. Thus the 561,430 FLB agricultural loans and 371,922 PCA agricultural loans compare only roughly to the 2.4 million farm operations. Roughly one-third of all farm debt is owed to the Farm Credit System.

1982 Agricultural Exports

MR. COCHRAN. What is your forecast for agricultural exports in 1982?

MR. WILKINSON. It appears that our long string of 12 years with growing agricultural exports may be broken. Weak economic demand in developed importing countries, the strong value of the dollar, debt burdens of the third world countries, and East-West tensions have all taken their toll. Thus, volume of exports may set still another record, but prices are at very low levels. The result is likely to be $40-45 billion in value of exports.

Debt-to-Income Ratio

MR. COCHRAN. Would you relate to us the current debt-to-income ratio in the agriculture sector?

MR. WILKINSON. Ratios have risen continuously over the past three years, as shown in the chart on page 5 of our report, and since 1977 have been above the level of the late 1960s. The ratios dropped dramatically during 1972-74 with the drastic expansion in exports and record farm incomes of that period. Nonfarm income continues to grow more important in servicing farm debt, and the rise in the ratio of debt to total income has been less dramatic.

Removing Government from Lending Business

MR. COCHRAN. In view of the President's general theme of moving the Government out of the lending business, what, if any, resulting impact will there be on the Farm Credit System? How has the President's economic recovery program generally affected the Farm Credit System in the short time it has been in place?

MR. WILKINSON. We have cooperated fully with FmHA as they seek to graduate their stronger borrowers into commercial credit programs, including PCAs. We also recognize the important role of Farmers Home in helping to get young farmers started. In the recent period, of course, CCC lending has expanded dramatically, as it is designed to do when farm prices are low, and this has improved our repayments on loans outstanding during 1981. Once this short-run process is completed and Government lending stabilizes at lower levels, we anticipate continuing cooperative efforts to serve borrowers as they move toward sound and viable farming operations.

Up to this point in time, the 1981 economic recovery program has not achieved a lowering of interest rates or improvement in demand for agricultural products which would benefit borrowers and the Farm Credit System.

Regulations

CHAIRMAN COCHRAN. I understand from your report that final regulations have been developed for nearly all the changes brought about by the Farm Credit Act Amendments of 1980. What items remain?

MR. WILKINSON. The remaining regulations that FCA needs to develop to complete the requirements of the 1980 Amendments are: (1) the regulations governing the participation in loans among Farm Credit System institutions and with other lending institutions outside the System; and (2) the regulation governing the extension of credit and other services to eligible persons in the Virgin Islands.

Bond Market

MR. COCHRAN. How is the Farm Credit System doing in the bond market?

MR. WILKINSON. System securities continue to enjoy the respect of investors, and rates paid have been very favorable in comparison to everyone except the U.S. Treasury itself. However, the overall level of rates has been high in 1981, and investors have increasingly been willing to buy only shorter maturities. We are now replacing maturing issues sold at very high rates in mid-1981, which is providing some slight relief in funding costs.

Rural Electrification Administration

MR. COCHRAN. The Rural Electrification Administration lending programs are slated for severe cuts in the President's budget. If these programs are cut, how much, if any, of that market could any of your banks or associations service?

MR. WILKINSON. During 1981, the banks for cooperatives made $2.1 billion in loans to rural electric cooperatives. This represents an increase of 5 percent over 1980. Although the BCs were able to accommodate a portion of the cutbacks in REA guaranteed loans last year, future growth of a sizeable magnitude is questionable for a number of reasons.

One restriction placed on BC loans to RECs is that only those REC loans with at least 60 percent farmer membership can qualify for financing from the BCs. A second limit stems from the inadequacy of the RECs' equity capital base. Without Federal guarantees, some RECs investing in G&T facilities will find it extremely difficult to obtain credit. Finally, some loans for G&T facilities could exceed the combined lending limits of the BC systems and require a consortium of participating lenders.

PCA Loans

MR. COCHRAN. Please prepare for the record the number of farm loans turned down by production credit associations in cases where the farmers have sufficient equity but are unable to show a payback on paper for loans made for the 1982 crop year.

MR. WILKINSON. Production loans for the 1982 crop year are still in process in many parts of the Nation; therefore, it is premature to make even an educated guess in response to your specific question. Although we do not accumulate data of this type because this situation occurs infrequently, there may be a few instances of its happening. In those cases, the borrower would have shown consistent losses and a declining equity base for several years before the loan request was denied. In addition, the borrower would have been advised several times prior to the action that the association would have to limit credit as of the new crop season or loan renewal.

The production credit associations are extremely aware of the current economic stresses and work with borrowers and potential borrowers beyond what could be considered normal credit constraints.

The continuing purpose of the Farm Credit System is to provide sound, adequate, and constructive credit in good times and in bad. The ultimate test, of course, is whether there is a reasonable prospect for financial recovery. We are now in a period, however, in which the financial limits for some borrowers are likely to be tested. The policy is to work with distressed borrowers as long as a reasonable prospect can be identified. Nevertheless, our forbearance philosophy also provides for counseling those who have little hope for financial survival. In such cases, we may encourage them to withdraw their remaining equity before it is dissipated.

Implementation of the 1980 Amendments

MR. COCHRAN. It has been over a year since the 1980 Farm Credit Act Amendments were signed into law. The Farm Credit Administration is still in the process of preparing some final regulations and the district banks and associations are preparing policies and procedures. When the Senate version of this bill was first introduced in 1979, Governor Wilkinson, in testifying before the Subcommittee on Agricultural Credit and Rural Electrification, stated that the amendments "would make an important contribution to the welfare of American agriculture, rural America and the Nation as a whole." Why then is it taking the Farm Credit Administration and the district banks and associations so long to prepare regulations, policies and procedures to implement these important amendments?

MR. WILKINSON. The Farm Credit Amendments of 1980 became law on December 24, 1980. Since the passage of the amendments, 111 Regulations, mostly pertaining to or as a result of the amendments, have been processed through the stage of being published in the Federal Register as final Regulations. As you know, regulation development is a deliberate and relatively time-consuming process. After a regulation is drafted, it is presented to the Federal Farm Credit Board as a draft regulation. In the interest of producing the most workable regulation possible, the draft regulation is then provided to interested parties for comment. At the next Federal Farm Credit Board meeting, the draft regulation is submitted for tentative approval as a "proposed" regulation. After approval by the Board as a "proposed" regulation, all regulations are transmitted to the House and Senate agriculture committees for a 30-day comment period as required by the 1980 amendments. This 30-day period cannot include periods of congressional recess. The regulation is then transmitted to the Federal Register for publication as a "Proposed Rule." There is a statutory 60-day comment period after which the regulation is modified as needed and presented to the Federal Farm Credit Board for final consideration. Following Federal Farm Credit Board approval, the final regulation is transmitted to the House and Senate agriculture committees as required by the 1980 amendments. The final regulation is then transmitted to the Federal Register for publication as a "Final Rule." Thirty days later the regulation becomes effective. As required by the 1980 amendments, the process was more involved for the two new basic authorities, other financing institutions and international finance.

The 1980 amendments addressed, among others, five basic authorities: other financing institutions, international finance, basic processing and marketing, 10-year PCA loans, and the special credit needs of young, beginning, and small farmers. Draft regulations for four basic authorities were presented to the Federal Farm Credit Board at its first meeting following the signing of the 1980 amendments into law. A special Federal Farm Credit Board meeting was called for the specific purpose of considering these regulations as "proposed" regulations so as to speed the process as much as possible. Following the above-stated required regulatory process, all four authorities became effective in the latter part of 1981. The fifth authority became effective shortly thereafter.

The boards of each of the 12 districts then develop policies, and the respective banks develop procedures to implement the Regulations. Almost all districts have approved policies for these basic authorities.

While the regulatory process is rather long, partly because of statutory requirements included in the 1980 amendments, equal opportunity for all interested parties to comment is a significant consideration.

MR. COCHRAN. What has the Farm Credit Administration done to speed up the preparation of final Regulations and to help district banks and associations prepare policies and procedures?

MR. WILKINSON. Actually, the Administrative Procedures Act and other relevant statutes provide the Agency with relatively little room to expedite the regulatory process. However, there were eight "self-effectuating" authorities conferred by the amendments which institutions of the Farm Credit System were able to exercise without the necessity of adoption or revision of implementing regulations. The Agency has worked very closely and assisted the district boards and banks in the development of concepts and policies. Perhaps the most specific and significant example is the Agency's involvement with other financing institution authorities. Numerous meetings have been held with the Federal intermediate credit banks and representatives of commercial banking institutions. These meetings were to fully explain the intent of the Regulations and what was expected from the FICBs in the way of policies and related procedures.

MR. COCHRAN. Have the new and expanded authorities authorized by the amendments been used? Which amendments and which districts were involved?

MR. WILKINSON. The district policies and procedures, for the most part, have only recently been approved. We believe very limited use has been made of the new authorities. However, new or revised relationships have been developed between some FICBs and OFIs. The most interest has been in the Midwest, which has the higher concentration of agricultural commercial banks.

Public ultility cooperatives, which would have been ineligible under the higher eligibility requirements, are being contacted by banks for cooperatives.

As the farmers seek financing during the 1982 crop year and as borrowing reaches its normal peak at harvesttime, we believe the new authorities will be utilized. Data will be collected in 1982 and included in our annual Report to Congress.

International Financing Amendments

MR. COCHRAN. The purpose of the international financing amendments is to expand exports, improve agricultural trade balances, and return more of the profit margin to the farmer. To what extent has the Farm Credit Administration determined that these goals will be accomplished? What is the status of this amendment?

MR. WILKINSON. The Farm Credit Administration has issued regulations which implement the 1980 Amendments to the Farm Credit Act of 1971 to allow the banks for cooperatives to finance agricultural exports of farmer-owned cooperatives in the same manner as a commercial bank finances exports of other products. Since the BCs received the final authorities to begin financing agricultural exports on February 16, 1982, there has been much interest expressed and several commitments to finance exports have been made.

The question of anticipated growth in the banks for cooperatives' export financing within the next several years is a difficult one to answer. We are optimistic that the banks for cooperatives can play an important role in assisting farm cooperatives to increase their participation in direct exporting. The competitive interest rates available from the banks for cooperatives will, of course, be of value in achieving this objective. This advantage, however, is not sufficient to overcome all of the obstacles that cooperatives face in entering export markets. Finding ways to overcome the barriers to entry into export markets will require creative solutions. Cooperatives, themselves, must take responsibility for developing these solutions. We believe the banks for cooperatives can play a role in seeking these solutions. The extent to which cooperatives are successful in entering export markets will ultimately determine the growth rate for bank for cooperative export financing over the next several years.

OFI Lending Authority

MR. COCHRAN. The other financing institution (OFI) provision was modified by the amendments so that a Federal intermediate credit bank could make to and discount for OFIs all of the types of loans, for all of the purposes, that production credit associations are authorized to make. The amendments also added assurances to the statute that the Federal intermediate credit bank discount privilege would be made available on a reasonable basis to eligible OFIs. The idea was that this service would be made available to a large number of OFIs which need this service to more adequately serve agricultural and aquatic borrowers. Has the Farm Credit Administration conducted any studies to determine if more OFIs will use this service or if more can be done to better serve OFIs? If not, how does the Farm Credit Administration intend to achieve the goals of this new provision?

MR. WILKINSON. The Farm Credit Administration has not made such a study. We have, however, taken steps to assure that agricultural banks are aware of the OFI authorities. Each of the 12 Federal intermediate credit banks has held seminars and meetings with appropriate bank groups in its area to fully explain this program. To a very large extent, the actual number of other financing institutions utilizing this service will be governed by interest rates, availability of other sources of funds, and the general state of the economy.

Young, Beginning, or Small Farmers and Ranchers

MR. COCHRAN. The amendments included a provision aimed at helping to prevent the decline of the number of small farms and their contribution to American agriculture. The provision ensures that production credit associations and Federal land bank associations in all Farm Credit Districts make a conscious and coordinated effort to meet the unique credit needs of young, beginning, and small farmers and ranchers. The provision requires that associations, under policies adopted by district Farm Credit boards, prepare programs for providing sound and constructive credit and related services to these farmers and ranchers through coordinated programs. The results of such programs are to be reported annually to Congress. What studies has the Farm Credit Administration or the Farm Credit System conducted to identify the credit needs of young, beginning, and small farmers? What special loan programs have been developed and put into effect to satisfy these credit needs? To what extent have these special loan programs been coordinated with other Farm Credit institutions and governmental and private sources of credit?

MR. WILKINSON. A number of activities are underway which address this concern of the Congress about young, beginning, or small (YBS) farmers and ranchers. FCA regulations were developed and implemented during 1981. The FLB and FICB Systems have a joint committee working on a model district policy and on possible programs for associations. These questions will be addressed further at the local level when district policies are in place.

Each district has held special meetings with Farmers Home Administration to discuss how to better coordinate programs for joint lending and for graduation from FmHA. We are preparing an analysis of FLB lending in 1981, as required by the Congress. It will be a part of the FCA annual report. We have underway a sample survey of PCA borrowers, which will provide the data to be furnished to the Congress in mid-1983, covering the 1982 lending year.

We also hope to have available soon the results of the 1979 Agricultural Finance Census. This should give us a benchmark reading on the proportion of farmers with different levels of debt, and a basis for evaluating the performance of the System with the YBS group.

Senator Cochran, the information we already have suggests that FLBs and PCAs have been serving very significant numbers of young borrowers during the past decade. The various efforts underway should provide both a more complete status report on the current performance and appropriate programs to assure full service to YBS borrowers who can meet the test of commercial credit. Though the immediate farm income situation is not a favorable one for such borrowers, we would anticipate increased activity once farm income prospects improve.

Variable Interest Rate Program

MR. COCHRAN. The Farm Credit System has had a variable interest rate program for 10 years. The borrower's rate is based on the average cost to the System of its total bonds outstanding. Therefore, during periods of rising interest rates, System rates do not rise as rapidly as commercial rates. Conversely, during periods of falling interest rates, System rates do not fall as quickly as commercial rates. Is it fair to farmers and ranchers who have borrowed from the System when bond interest rates were low to have to subsidize farmers and ranchers who borrow when interest rates are high?

MR. WILKINSON. The Farm Credit banks are keenly aware of the impact of high interest rates on their borrowers. Interest rates for existing borrowers have risen under the variable interest rate programs both because of the System's rising debt costs and its loan growth.

Our debt marketing program is structured so that the banks are continually in the marketplace. Every month, they issue 6- and 9-month bonds. Eight times a year, they issue term bonds of various

maturities which depend on investor preference. Each Friday, they issue discount notes with maturities of 5 to 270 days. Most banks' debt portfolios are a blend of the above issues. More recently, the average maturity of the System's debt has been decreasing because of the lack of demand for long-term investments.

I think it is appropriate for the borrowers to bear some degree of interest rate risks because, by so doing, they assure themselves continued access to credit in the long run.

Most banks have tried to cushion or limit the impact that new borrowers have on the interest rates of existing borrowers through the imposition of loan fees of up to 7 percent on new borrowers. This has generated additional loan funds through earnings which otherwise would have had to come from increasing loan rates and borrowing at high interest rates, thereby increasing the average cost of bonds outstanding and increasing the loan rate to all borrowers.

MR. COCHRAN. What information is provided farmers and ranchers regarding how their interest rate will be calculated and what effect it will have on their payment?

MR. WILKINSON. When farmers and ranchers acquire loans through the banks, they are advised that the interest rate is based on the average cost of funds and will vary as the average cost of funds fluctuates significantly. Also, the banks comply with all applicable Federal and State Truth in Lending disclosure laws, which require notification of the dollar effect on each loan installment for each one-quarter percent of interest increase or decrease.

MR. COCHRAN. Would the System be able to withstand a large number of loan prepayments or a loss of borrowers if the interest rates suddenly drop?

MR. WILKINSON. In answer to your last question, the System's debt marketing program would permit it to withstand loan prepayments and loss of borrowers. Under these circumstances, banks would pay off maturing debt rather than refinance the bonds or notes. Of course, the amount of time it takes to apply prepayments against maturing debt would depend on the volume of prepayments, and any additional cost would very likely be absorbed by the banks.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

Foreclosures

MR. ANDREWS. In a news release received in my office yesterday, you state that "The Farm Credit System does not expect a great number of foreclosures during the year."

I would appreciate it if you would clarify that statement and back it up with figures. Just how do you expect the numbers to compare to last year?

MR. WILKINSON. If economic conditions in agriculture do not improve as 1982 progresses, we can expect the number of foreclosures to increase significantly compared with 1981. The foreclosure numbers will remain very small, however, when compared against the total number of loans and the total volume of credit outstanding. Careful loan servicing helps ensure the soundness as well as the adequacy of loans and holds foreclosures to a minimum. The most recent foreclosure statistics are now being compiled. We will share them with the Congress as the situation warrants.

MR. ANDREWS. Are you merely talking of Farm Credit borrowers or do your figures include those farmers who are FmHA borrowers?

MR. WILKINSON. Our figures include Farm Credit System borrowers only.

MR. ANDREWS. How many of your borrowers are being forced to go to FMHA this year because they no longer qualify for loans through the Farm Credit System?

MR. WILKINSON. We do not maintain figures on the number of Farm Credit System borrowers who give up their loans with our associations and go to FmHA for credit. I am confident that the number is very small. This is because the System is committed to providing adequate credit to agriculture wherever it can be used constructively and without jeopardizing the future availability of funds to the farm sector.

MR. ANDREWS. In North Dakota it is expected that by March 31, 1982 30% of FmHA borrowers will be delinquent in paying back their loans--a 9% increase over last year. Pending foreclosures in North Dakota as of February 28, 1982 and accounts accelerated are running 50% over last year. (Foreclosures 10 up to 15; accelerations 70 up to 125).

I realize that some of the accounts that have been accelerated will work things out and remain in farming--an estimated 50%. Others will voluntarily sell their property and others will go bankrupt.

How many Farm Credit borrowers do you expect will voluntarily go out of business?

MR. WILKINSON. We expect the number of our borrowers who will voluntarily go out of business will be small. A larger number will scale back their operations so as to minimize their expenses and financial exposure until things get better.

Bank for Cooperatives

MR. ANDREWS. I am very interested in the provisions permitting the Banks for Cooperatives to provide financing for exports to the cooperatives you serve. How much interest has been shown in this new authority?

MR. WILKINSON. Since the date the authorities became operational, February 16, 1982, several exporting cooperatives have asked for financing. While this, in itself, is a positive sign, no loans have yet been made due to failure to work out mutually agreeable terms.

MR. ANDREWS. Do you expect this new ability to sharply increase our exports?

MR. WILKINSON. We do not expect a sharp increase in agricultural exports in the first few years. Market development is a very difficult task. The banks for cooperatives are developing marketing programs to explain foreign markets to potential exporting cooperatives. We have seen a real interest in such programs, but in reality a sharp increase will not take place in the very near future. Also, any increase in U.S. exports is closely tied to developments in world economic conditions, which are difficult to predict.

MR. ANDREWS. What kind of a timetable are we facing in getting this program fully operational?

Mr. WILKINSON. As I mentioned earlier, the program became operational February 16, 1982. This involved the acquisition of additional staff with international experience and the development of an appropriate accounting system and forms. All this preparatory work has been done and the banks for cooperatives are now actively seeking to develop international lending relationships.

Farm Income Trends

MR. ANDREWS. In your annual report you state that in 1960 more than 53 percent of all farm families derived more than one-half of their income from farming. By 1980, only 27 percent of farm families earned the majority of their support from net farm earnings.

I have often said that I had to run for Congress so that I could continue in farming. Do you expect this trend to continue?

MR. WILKINSON. Yes, the trend toward fewer farm families being dependent on net farm earnings for the majority of their family income is likely to continue. But the trend will slow and it will have occasional disruptions due to volatile farm income. Most farm families have greater opportunities to increase their earnings from off-farm sources than from their farming operation. As urban areas have expanded and many industries have moved plants to rural areas, job opportunities have increased. And, as with households in general many farm wives have joined the labor force taking nonfarm jobs.

Meanwhile, the opportunity for increasing farm earnings on many farms has required adding acreage. Production yields have trended upward, but net operating margins have steadily narrowed. Whereas a few decades ago net farm income was 30 to 40 percent of gross, during the past two years this percentage has been in the low teens. Net farm income is increasingly becoming subject to volatile swings. This means marketing strategies are increasing in importance. But it also emphasizes the benefits to the farm family from having nonfarm sources of income.

MR. ANDREWS. It seems that we are fast approaching the day when farming will be a hobby for the wealthy.

MR. WILKINSON. In light of the trend of dependence on off-farm income and the huge capital requirements involved in farming, your comment seems reasonable. And during the current period of depressed farm prices, many farmers are losing money on their farming operations. A goodly number of them are able to maintain their operation because of other income sources or by drawing upon reserves. Yet, relatively few of today's 2.4 million farms could be classified as hobby farms for the wealthy.

At the heart of your comment is the financial barrier to persons wanting to enter farming. That obstacle is indeed formidable if one thinks of an owner/operator with a farm capble of generating an adequate level of family income. But there are viable entry alternatives, such as through tenancy or part-time farming, which are much less demanding of capital. There seems to have been a myth that only large-scale farming operations can be economically viable. The recent trend toward a bimodal distribution of farms with increasing numbers both in the lower and upper-size categories is evidence of the viability of part-time farming.

I might also speculate that the current earnings situation and soft land market could reverse the interest in "hobby farms." The motivation for such investments is in long run capital gains rather than current earnings and in the write-off of current expenditures that add to the longer run value. The recent news accounts of the financial collapse of persons who were growing by leaps and bounds by leveraging and banking on land values keeping ahead of inflation are viewed by some as a healthy shakeout in the best interest of smaller, family-sized operations.

Number of Foreclosures

MR. ANDREWS. What has been the historical record on foreclosures?

MR. WILKINSON. The following data summarize the number of properties acquired by FLBs through liquidation of loans over the past decade.

	Number of Properties	$ Million Investment
1971	7	0.4
1972	8	0.6
1973	6	0.3
1974	6	1.8
1975	15	0.5
1976	54	4.4
1977	91	7.1
1978 1/	118	14.7
1979 1/	77	8.9
1980 1/	75	9.8

1/ Data are for calendar year. Previous figures are for July 1-June 30.

FOOD AND DRUG ADMINISTRATION

STATEMENT OF ARTHUR HULL HAYES, JR., M.D., COMMISSIONER, FOOD AND DRUG ADMINISTRATION

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FUNCTIONS AND ACTIVITIES OF FDA

Senator COCHRAN. We will next hear from the Food and Drug Administration.

The Food and Drug Administration is responsible for setting food and product standards, in accordance with its mission to insure the safety of our food, drugs, cosmetics, biological products, therapeutic devices, and radiological technology.

Although the Food and Drug Administration is a component of the Department of Health and Human Services, we consider its budget in the context of our bill, particularly due to the Food and Drug Administration's important role in insuring the safety, quality and proper labeling of food products.

PREPARED STATEMENT

We are very happy to have before the subcommittee this morning Dr. Arthur Hayes, Jr., Commissioner of the Food and Drug Administration. We have a copy of your statement and biographical sketches, Dr. Hayes, and we will make them a part of the record at this point.

[The statement and biographical sketches follow:]

PREPARED STATEMENT OF ARTHUR HULL HAYES, JR., M.D.

COMMISSIONER

FOOD AND DRUG ADMINISTRATION

Mr. Chairman, I am pleased to appear before this subcommittee to represent the Food and Drug Administration. Before we begin I'd like to introduce my colleagues at the table.

Last year at approximately this time I came before you prepared to represent an agency of which I'd been Commissioner for two weeks. I'd had to rely on some very intense preparation with the help of a staff whose ability I was just beginning to recognize and respect. I have learned a great deal in one year, and still have a great deal to learn, but I can now confirm that my initial impression of FDA personnel in general was correct. They are dedicated, competent professionals who have been completely supportive and remain dedicated to the Agency's basic mission--protection of the public health.

Mr. Chairman, as you are no doubt aware from its high visibility in the media, this Agency has in the past year been involved in two emergency situations: a canned mushroom recall in 1981 and currently a canned salmon recall, in both cases because a deadly botulinum toxin was found in the product. The Agency had to mobilize immediately its field staff around the nation to deal with this threat to the public health, and we did so, thereby preventing a potential calamity. I mention this only to express my pride in the Agency and its ability, in spite of many other pressures and responsibilities, to rise to these occasions in a timely and effective manner.

Last year we made a very comprehensive presentation on the mission and organization of the Food and Drug Administration, largely for the benefit of new Subcommittee members. In the interest of time, this year's presentation need not be so lengthy; however, I would like to explain a bit of my own philosophy as well as highlight just a few of the issues currently confronting the Agency which I know are of particular concern to this Committee.

A theme that I will stress repeatedly, both in this statement and in my tenure as Commissioner, is my intention to foster a more cooperative spirit with industry and accomplish our responsibility, by promoting voluntary action on the part of industry wherever possible to benefit the public as consumers and taxpayers. One area in which this will become apparent is in drug development. As a physician and pharmacologist, I have an acute personal interest in improving the drug evaluation and approval process. Thus, when I came to FDA, I set out to conduct the most comprehensive review ever undertaken of this Agency's drug development process. I intend to ensure that the government, while maintaining the appropriate standards for safety and efficacy, does not pose any unnecessary or artificial barriers to the rapid development of important new therapies. In fact, I am totally committed to making these new therapeutic entities available, as quickly as possible, to the patients whose very health and lives depend on them. My commitment includes particularly an area in which I share your own and the Committee's concern: those potential new therapeutic entities which may not be developed because of insufficient scientific interest or economic incentives to manufacturers--the so-called "orphan drugs." In response to interest from several quarters, including this Committee's mandate, we are undertaking a major effort to encourage the introduction of such new products. In this regard, the Secretary will shortly be announcing the formation of an Orphan Products Board, which will be chaired by the Assistant Secretary for Health. As the committee envisioned in its Report regarding our 1982 appropriation, it will consist of representatives from appropriate Public Health Service agencies and other government departments. We plan to invite individuals from the Veterans Administration, the Department of Defense, and other departments and agencies to participate. The purpose of the Board would be to set policy in this area by facilitating the research, development, and approval of designated orphan drugs and products. The Board will actively work with such groups as the Pharmaceutical Manufacturers Association Commission on Drugs for Rare Diseases in identifying and assigning priorities to products that need development or other assistance to secure marketing approval. It will designate specific DHHS agencies to serve as focal points for conducting or facilitating needed research. In the meantime, I have already established an Agency-wide group within FDA, under my leadership, to coordinate our activities in this area. The group's focus will be comprehensive, extending to all organizational entities within the Agency, including biologicals, and medical devices.

In this pursuit, as well as in the overall drug review and approval process, we will accept reliable foreign data if no further studies are needed here, if such data are relevant to the U.S. population, and if the data represent an important addition to our arsenal of cures. This past year, by way of illustration, I approved the first New Drug Application, for a particular indication, based solely on foreign data. The drug is Timolol, a beta blocker that has been used since 1978 in treating glaucoma, and which may now be used in preventing death and further heart attacks among the 350,000 Americans each year who have just survived an initial heart attack. On the basis of raw data from clinical trials conducted in Norway, some 50,000 of these initial heart attack survivors could be expected to die within two years. If we can cut this rate by a third--as the Norwegian study suggests we can--then each year 17,000 Americans who otherwise would die, will live prolonged lives.

In addition, last year the FDA approved 27 "totally new" drugs--the most new drugs approved since passage of the 1962 legislation governing drug approval. The total is more than twice those approved in 1980. These new drugs include: verapamil and nifedipine, both heart drugs known as calcium blockers; captopril, for stubborn cases of high blood pressure; albuterol, for asthma; and sucralfate, for ulcers. In addition, two drugs in particular represent important therapeutic gains. Alprostadil, which can temporarily treat infants with congenital heart defects prior to corrective surgery, and ketoconazole, for treatment of internal fungus diseases. This represents a large step toward realizing my goal of speeding up the drug approval process.

Another new product approved this past year is the first Hepatitis Type B vaccine. As many of you know, people at high risk of Hepatitis Type B include many who work in hospitals and other health care facilities or who regularly come into contact with chronically-infected individuals. And Hepatitis Type B is a major public health problem in this country, with 200,000 to 300,000 new infections each year, tens of thousands of cases of significant clinical hepatitis, and as many as 400 deaths. But thousands more suffer from degenerative liver disease, and there is reason to believe that Hepatitis Type B is associated with liver cancer, a serious problem in this country and the most common form of cancer world-wide.

The vaccine for Hepatitis Type B, like most vaccines, was developed through a cooperative effort of scientists in government, industry and the academic community. It is this kind of cooperative spirit that represents health promotion at its best and that results in a payoff for all of us. And it is this kind of cooperative spirit that I intend to encourage.

At the same time, I believe in a concept of regulation. But I believe that for regulation to be efficient and effective it must not be allowed to stifle innovation or new applications of knowledge. When that happens, the government has overstepped its bounds and does more harm than good. Unless there is incentive to risk the huge investments current drug research entails, potentially-beneficial medicines will never appear in hospitals. So, we must be sensitive to the impact of our regulatory stance on innovation. And I can assure you that we are sensitive to that impact. To me, the concept of "less regulation" equates to intelligent and timely regulation. I see the role of government as fostering an atmosphere in which incentive is encouraged while assuring that the fruits of research are examined for their capacity to advance public health. I have, therefore, begun a review of all of FDA's regulations--all 3,700 pages of them--keeping in mind that regulations must be thoughtful and consistent, with renewed emphasis on rationality, flexibility, and economic impact. I am committed in this regard to reassessing the need for existing regulations, making essential regulations less burdensome, writing them clearly so that regulated industries understand exactly what is expected of them, and stimulating more critical evaluations of the consequences of regulatory actions on the American public and the private sector of the economy.

In this context, I am currently reviewing all of FDA's major programs and timetables for our review of existing regulations to identify those which may need revision, or might be repealed. We will be publishing in the near future a listing of our priorities for those major regulations to be reviewed first. We are continuing our efforts to reduce the paperwork burden on industry, to consider the effects of regulations on small businesses, and to assist small businesses in understanding and complying with the law. In another area, we are revising the Current Good Manufacturing Practice regulation for foods to focus them on quality control objectives, rather than on specific methods for food processing.

In this effort, I believe we must not lose sight of the public's justifiable expectation of continued health protection. The public's expectation is an important point to stress here. A recent Roper poll indicated that 80 percent of respondents have a fairly clear idea of what the Food and Drug Administration does--a higher percentage than for seven other Federal regulatory agencies. More importantly, the survey found that one in three respondents believe that FDA does about the right amount of regulating; that nearly another one in three believes that FDA doesn't go far enough; and only 14 percent believe that FDA goes too far.

What that poll meant to me was that the public expects the government to play a role in ensuring the safety and quality of our food, drug, and health care supplies. The poll confirms an observation that I have made personally, and that is that the public has high expectations for the safety of the products regulated by FDA, and in fact wants this kind of regulation.

So as I approach the deregulation issue, I begin from the viewpoint that the public wants and expects the guarantee of protection afforded by FDA. The question is whether the rules and regulations issued by FDA are effectively meeting those expectations; whether there are alternative ways to accomplish the same goals; and whether FDA's own procedures are efficient in making decisions.

The idea of regulatory reform also translates into new approaches to problem solving. One such effort, in which I also hope to encourage a voluntary spirit, is in the area of sodium labeling. We know that sodium has for some time been associated with an increase in blood pressure, and that when hypertensives eat foods with lower sodium content, their blood pressure goes down. Often such a dietary change, combined with a weight loss and more exercise, is all the treatment a person with high blood pressure needs. The dangers of hypertension are well known--strokes, heart attacks, kidney failure. What may not be as well known is that one in four Americans--some 60 million of us--have blood pressure that merits medical attention.

Those of you here who have high blood pressure know how frustrating it is to try to follow a low sodium diet. The foods simply are not available--or identifiable--not only in restaurants, but also in supermarkets. The marketplace has not been conducive to helping people lower their sodium intake. It's not simply a matter of not using the salt shaker, since fully two thirds or more of our sodium intake comes from processed foods, which traditionally have not been labeled for sodium content.

This sodium campaign is our first major effort at this sort of voluntary, cooperative approach to public health promotion, and the results already are encouraging. We are working with NIH and the Department of Agriculture, and have initiated a comprehensive effort to increase the number of processed foods whose labels include information about sodium content. Meeting individually with the largest grocery manufacturers and collectively with the trade associations whose products contain sodium naturally or as an additive, we have strongly encouraged the reduction of sodium in established product lines, plus the introduction of new ones with reduced or eliminated sodium. These steps are being supplemented by new national consumer education efforts to heighten shoppers' awareness of the need to look for such labeling and such products. We believe such voluntary approaches will be more effective and less costly than total mandatory change by legislation or regulation. We do intend to propose, however, that sodium content be included as part of nutrition labeling for those foods--roughly 40 percent--that either voluntarily nutrition label or are required to so label.

When we began this program a year ago, only 13 percent of processed foods bore sodium labeling. During 1982, I am confident that figure will increase significantly, based on commitments we have received from industry. The sodium effort underscores a basic principle of my regulatory philosophy, and that is that we need to restore to the private sector the initiative to permit it to do what it does best, free of heavy-handed or unnecessarily restrictive regulations. It is clear that the food industry is in the best position to reduce sodium content in foods and provide better labeling.

Science Environment

In my short tenure as Commissioner, I have acquired appropriate respect for the breadth of FDA's responsibilities. As the nation's foremost consumer protection agency, FDA's activities impact on the absolute essentials: foods, drugs, and medical devices. Our decisions affect not only products used in daily life—but the very quality of that life. Thus, our level of scientific knowledge upon which to base these decisions must be the highest possible. In the 1980's this is an awesome task. For example, it is now possible to trace residues in edible animal tissue and other foods in quantities as small as parts per trillion, and that is only an example of the dimensions of today's science. To maintain an adequate scientific capability that can address current and future technology demands that we attract and keep the best scientific minds, that we have laboratories and equipment to allow and encourage fruitful expression of those minds, and that we remain ever vigilant in an era when emerging technologies create almost daily obsolescence of existing knowledge.

Another example that I might share involves the rapidly expanding field of genetic engineering, which promises tremendous application in all the areas of FDA's jurisdiction. Thanks to the utilization of recombinant DNA and the creation of hybridomas it is now possible to develop "cloned" cells which have the ability to produce unlimited amounts of specific immune substances--the sc called "monoclonal antibodies." Before the advent of this new technology, it was not possible to produce a specific antibody targeted to a particular antigen. Therefore, all of our current antibody preparations for both therapeutic and diagnostic use are a "soup" of many different kinds of antibodies, some of which are unneeded and reduce the usefulness of the product. This very new ability to produce an almost unlimited number of very specific immune products makes it possible to consider therapeutic and diagnostic uses that would have been inconceivable a few years ago. For example, such substances may be coupled to cytolytic drugs so that the antibody can lead the drug directly to a target cancer cell for destruction. Likewise, radioisotopes could be tied to these monoclonal antibodies for similar purposes or to provide new diagnostic approaches.

The true implications of these new technologies are as yet unknown, but what is known is that they will present unique proposals in the fields of foods, biologics, diagnostics, and drugs, and will require a unique expertise in FDA in order to harness and evaluate this new knowledge, and permit orderly introduction of the resulting products into the market.

Budget Request for 1983

Mr. Chairman, I don't have to tell this Committee that this has been an uncommon budget year. The efforts of Congress and the Administration to reduce federal spending have made us, like all others, look hard at our programs. We have been asked to do our share in maintaining a lean government. As a result, we have sustained certain resource reductions in 1981 and 1982, which, in my opinion, still leave us with the resources necessary to meet our basic responsibilities. With this in mind, I'd like to discuss briefly our 1983 budget request.

The requested staffing levels in 1983 are quite similar to 1982 estimates. In an Agency which devotes roughly 95 percent of its budget to paying and supporting its employees, reducing staff levels is the only way to absorb resource reductions. Again this year, our request for operating funds includes increases only for mandatory expenses to permit us to continue approximately the current level of activity without significant staffing reductions, except for the elimination of the Antibiotic Certification Program. This Program has now reached the end of its usefulness. On the basis of the level of quality control demonstrated by manufacturers of modern antibiotics, a special batch-testing and certification process for this class of drugs is no longer necessary.

Conclusion

Mr. Chairman, this concludes my prepared statement. I would like to thank you for the opportunity to appear before the Subcommittee today.

As I prepare to begin my second year as Commissioner--and the FDA embarks on its second 75 years of consumer protection--I am increasingly sensitive to the importance of our role in the most advanced system of health care in the world, but our involvement goes much further. Our knowledge and decision-making cannot remain static if we are to assure the safety and effectiveness of products we are called upon to regulate. And one way FDA's role has changed over 75 years is that our activities and emphasis have shifted from ferreting out products in violation of the law, to seeing that products are safe and effective before they reach the consumer. Additionally, just as government must not stifle industry innovation, we also should not lull the consumer into thinking we can provide all the assurances of absolute product safety. I know of no product that is not harmful if used improperly. FDA can educate and inform, we can encourage consumer participation, and we can help the consumer recognize his individual responsibility, but proper use of products is an area of responsibility which properly belongs to the consumer.

The public has demonstrated its faith in the Food and Drug Administration, and I have tremendous faith in the American public. As consumers, they have responded well to our efforts. They are more aware of the importance of, and eager to participate in, the upkeep of their health. The collaborative spirit which I have stressed today extends to FDA's relationship with the public, as well as our dealings with industry. I must see that FDA does its part as effectively and efficiently as possible. The industries we regulate and the public we serve have every right to demand nothing less.

My appearance as a witness last year after such a short tenure had one benefit: I was able to pass many questions on to my colleagues. I will be happy to answer any questions from you or the members of your Subcommittee.

BIOGRAPHICAL SKETCHES

ARTHUR HULL HAYES, JR., M.D.

POSITION: Commissioner, Food and Drug Administration

BIRTH PLACE & DATE: Highland Park, Michigan
July 18, 1933

EDUCATION: Bellarmine College Preparatory, San Jose, California; classical diploma, 1951
University of Santa Clara, California; A.B. (philosophy) magna cum laude, 1955
Oxford University, Oxford, England; M.A., Honours (philosophy, politics and economics), 1957
Georgetown University, Washington, D.C.; (premedical 1 year and medicine 2 years), 1957-60
Cornell University Graduate School of Medical Sciences, New York, N.Y., Department of Pharmacology (graduate education), 1960-62
Cornell University Medical College, 1962-64, M.D.

HONORS AND AWARDS: Doctor of Public Service, *honoris causa*, University of Santa Clara, 1980
Nobili Medal, University of Santa Clara, 1955
Phi Beta Kappa
Alpha Sigma Nu (Honor Society)
Alpha Omega Alpha (Medical Honor Society)
Good Physician Award, Cornell University Medical College, 1964
Dean William Mecklenburg Polk Research Prize, Cornell University Medical College, 1964
Department of the Army Certificate of Achievement, 1967
U.S. Army Munitions Company 1969 Science Conference First Place Award
Who's Who in America, 1980-
Who's Who in the East, 1973-
Dictionary of International Biography, 1974-
Men of Achievement, 1975-
Community Leaders and Noteworthy Americans, 1977-
Men and Women of Distinction, 1979-

LICENSES: Diplomate, National Board of Medical Examiners
Medical License: Maryland, New York, Pennsylvania, New Jersey, Connecticut

EXPERIENCE: Professor of Medicine and Pharmacology, Senior Member of the Graduate Faculty (1977-1981) and Chief, Division of Clinical Pharmacology, Pennsylvania State University College of Medicine
Attending Physician, University Hospital, Pennsylvania University, Hershey Medical Center, 1972-1981
Director, Hypertension Clinic, Hershey Medical Center, 1973-1981
Instructor in Public Speaking, Georgetown, University, 1959-60
Assistant in Medicine, Cornell University Medical College, 1965

Fellow in Medicine, Cornell University Medical College, 1967-68

Assistant Professor of Pharmacology, Cornell University Medical College, 1968-71

Associate Professor of Pharmacology, Cornell University Medical College, 1972

Assistant Professor of Pharmacology, Cornell University Graduate School of Medical Sciences, 1968-71

Associate Professor of Pharmacology, Cornell University Graduate School of Medical Sciences, 1972

Assistant Professor of Medicine, Cornell University Medical College, 1970-72

Assistant Dean (Academic Programs), Cornell University Medical College, 1970-72

Associate Dean (Academic Programs), Cornell University Medical College, 1972

Associate Professor of Medicine and Pharmacology, Pennsylvania State University College of Medicine, 1972-77

Intern (Medicine), The New York Hospital, 1964-65

Assistant Resident in Medicine, The New York Hospital, 1965

Consultant in Toxicology, Kirk Army Hospital, 1965-67

Assistant Resident in Medicine, The New York Hospital, 1967-68

Chief, Cardiac Pacemaker Clinic, The New York Hospital 1968-72

Alternate in Pharmacology and Medicine, Formulary Committee, The New York Hospital, 1968-72

Human Research Advisory Committee, The New York Hospital, 1971-72

Consultant in Clinical Pharmacology and Hypertension, Lebanon Veterans Administration Hospital, 1973-1981

Consultant in Clinical Pharmacology, Laurelton State Hospital, 1977-1981

PUBLICATIONS: Dr. Hayes has authored or co-authored over one hundred scientific published articles, book chapters, and abstracts.

MARK NOVITCH, M.D.

POSITION: Deputy Commissioner, Food and Drug Administration

BIRTH PLACE & DATE: New London, Connecticut
April 23, 1932

EDUCATION: June, 1954, A.B., cum laude, Yale University;
May 1958, M.D.,
New York Medical College

EXPERIENCE: April 1981-Present, Deputy Commissioner, FDA;
January-April 1981,Acting Commissioner, FDA;
1979-January 1980, Acting Deputy Commissioner, FDA;
1978-1979,
Associate Commissioner for Health Affairs, FDA;
Brookings Institute,
Federal Executive Fellow, 1970-1971; DHEW, Assistant to the Director for Health and Scientific Affairs, and Assistant Staff Director Task Force on

Prescription Drugs, 1967-1970
Private practice of medicine, Cambridge Massachusetts and physician Veterans Administration Hospital, 1963-1967; Harvard Medical School, Resident Fellow, Assistant in Medicine, and Instructor, 1960-1967; Boston City Hospital, Resident Intern and Assistant Resident in Medicine, 1958-1960

HONORS AND AWARDS: Public Health Service Postdoctoral Fellowship, 1960-1962;
Secretary (DHEW) Special Citation, 1968 and 1975; Commissioner's Special Citation, FDA, 1977; FDA Award of Merit (Drug Review Team), 1979

MEMBERSHIPS: American Public Health Association; Massachusetts Medical Society; United States Pharmacopeial Convention (Delegate-at-large 1975-1980)

PUBLICATIONS: Images of the Drug Scene: The Executive Branch View in Cooper J: The Economics of Drug Innovation, American University, 1970; Experiences of the HEW Task Force on Prescription Drugs, Proceedings of the Symposium on Physiological Equivalence of Drug Dosage Forms, Canadian Food and Drug Directorate, 1970; Overmedication: International Perspectives, Hospital Formulary Management, Vol. 8, No. 8, August 1973; OTC Review: An Update, FDA Consumer, Vol. 8, No. 4, May 1974, pp. 12-18; Looking Beyond Drug Payment, Wertheimer, A. I., and Schubert, M. L. eds., Perspectives in Pharmacy, University of Minnesota, 1976; The FDA Outlook, Medical Dimensions, Vol. 7, No. 5, May 1978, p. 27; Practical Aspects of Antibiotic Review, What the FDA Can Do to Help Hospitals Improve Antibiotic Usage, Kunin, CM, Ed, Atlanta: American Health Consultants, 1979; pp. 81-87

THOMAS SCARLETT

POSITION: Chief Counsel, Food and Drug Administration

BIRTH PLACE & DATE: Charlottesville, Virginia
July 20, 1943

EDUCATION: Columbia University, B.A., summa cum laude, Phi Beta Kappa, 1966 Yale Law School, J.D., Order of the Coif, Yale Law Journal, 1969

EXPERIENCE: 1981-Present, Chief Counsel, Food and Drug Administration; 1979-1981, of counsel, Morgan, Lewis & Bockius. Counseling and litigation in food and drug and environmental matters; 1978-1979, Deputy Chief Counsel for Regulations and Hearings, Food and Drug Division of HEW's Office of the General Counsel; 1973-1978, Lawyer, Food and Drug Division of HEW's Office of General Counsel; 1971-1973, Lawyer with the former Social and Rehabilitation Services Division of HEW's Office of the General Counsel; 1969-1971, Associate with White & Case, New York City; 1968, law clerk, Bergman & Barth, New Haven, Conn.

MEMBERSHIPS: New York Bar, District of Columbia Bar, United States Supreme Court Bar, and the American Bar Association

GERALD F. MEYER

POSITION: Associate Commissioner for Management and Operations, Food and Drug Administration

BIRTHPLACE AND DATE: Maquoketa, Iowa
September 16, 1936

EDUCATION: June, 1958, B.S., cum laude, Commerce, University of Notre Dame, South Bend, Indiana

HONORS AND AWARDS: Senior Executive Service Performance Award - 1980
Food and Drug Administration - Award of Merit, May 31, 1973; DHEW Superior Performance Award - May 28, 1968

EXPERIENCE: April 1979 to Present, Associate Commissioner for Management and Operations, Food and Drug Administration; 1978 to 1979, President, Microbiological Associates, a Division of the Wittaker Corporation, Bethesda, Maryland; 1973 to 1978 - Associate Commissioner for Management and Operations, FDA; 1972 to 1973 - Director, Office of Legislative Services, Food and Drug Administration; 1971 to 1972 - Chief, Health Branch, Division of Budget, Office of the Secretary, Department of Health, Education and Welfare; 1969 to 1971 - Clerk to the Minority, Appropriations Committee, U.S. House of Representatives; 1964 to 1969 - Administrative Officer, Etiology Research Program directed at the Cause and Prevention of Cancer, National Cancer Institute; 1962 to 1964 - Administrative Officer, National Institutes of Health, Research Program in West Africa undertaken to assist the Government of Ghana develop its first medical school; 1960 to 1961 - Budget Analyst National Cancer Institute; 1958 to 1960 - Management Intern, National Institutes of Health.

FRANK P. CLAUNTS

POSITION: Director, Division of Financial Management, Office of the Associate Commissioner for Management and Operations

BIRTHPLACE AND DATE: Bartlesville, Oklahoma, September 5, 1942

EDUCATION: Bachelor of Arts, Texas Tech, June 1964
Master of Business Administration, American University, May 1975

HONORS AND AWARDS: Food and Drug Administration Commendable Service Award, 1980; Quality Increases in 1975, 1973, and 1971; "Distinction" on MBA Comprehensive Exams in 1975; Special College Leadership Award at Texas Tech in 1964.

EXPERIENCE: July 1980 to Present, Director, Division of Financial Management, Food and Drug Administration; September 1977-June 1980, Director, Division of Management Services, Food and Drug Administration; July-September, 1977, Special Assistant to the Associate Commissioner for Management and Operations, Food and Drug Administration; August 1976-June 1977, Legislative Analyst, Office of Management and Budget; July 1972-August 1976, Management Analyst, Food and Drug Administration; June

1971-May 1972, State Director of the Peace Corps in Bihar, India; July 1969-June 1971 India Desk Officer, Peace Corps, Washington, D.C.; September 1966-July 1969, Peace Corps Field Officer in north-eastern India; June 1964-June 1966, Peace Corps Volunteer, Tripura, India

WILLIAM BELDON

POSITION:	Branch Chief, Division of Health Budget Analysis, Office of the Secretary DHHS
BIRTH PLACE & DATE:	Huntington, West Virginia June 3, 1948
EDUCATION:	Marshall University, 1970 B.A.
EXPERIENCE:	August 1979 - Present, Chief, Division of Health Budget Analysis, Office of the Secretary/Department of Health and Human Services; September 1972 - August 1979, Budget Analyst, Division of Health Budget Analysis, Office of the Secretary/Department of Health, Education, and Welfare; June 1970 - September 1972, Financial Management Intern, Office of the Secretary/Department of Health, Education, and Welfare

INTRODUCTION OF ASSOCIATES

Senator **Cochran**. Dr. Hayes, we invite you to make any comments that you would like from that statement, highlighting or summarizing it in any way that you may choose. We probably will have a few questions. Please introduce your colleagues who have accompanied you here.

Dr. **Hayes**. Thank you very much, Mr. Chairman. It is good to be here.

Let me introduce those who are with me. On my far right, your left, is Mr. William Beldon from the Division of Health Budget Analysis in the Department of Health and Human Services. To my immediate right is Mr. Thomas Scarlett, who is Assistant General Counsel and Chief Counsel for the Food and Drug Administration. To my left is Mr. Gerald Meyer, who is Associate Commissioner for Management and Operations in the agency. And on my far left is Mr. Frank Claunts, who is the Director of the Division of Financial Management.

I appreciate the opportunity for my remarks to be entered in the record, and perhaps, I can take a moment or two to highlight a number of points. The first and the most heartfelt is that I feel more comfortable this year than I did when I sat before this subcommittee last year. At that time, I had been Commissioner for 10 days and felt somewhat less than adequate. I trust in my almost 10 months as Commissioner I have in some regard come up to speed.

CANNED FOOD RECALLS

I am sure you are aware, Mr. Chairman, we have had many responsibilities and even emergencies this past year, in the latter category a number of recalls. One that occurred very shortly after I became Commissioner last spring was a canned mushroom recall in which the finding was botulinum toxin. I am happy to say that recall of some 15 million cans was satisfactory and indeed, to our best information, no deaths or injuries resulted from the contaminated product. We currently are involved in a canned salmon recall, also involving botulinum toxin, and recently an infant formula recall because of inadequate addition of vitamin B6, an essential nutrient.

These recalls are obviously part of our mission. They are expensive and make you reshift, rather hurriedly, priorities in terms of allocation of resources.

I think the most important message that I have for the subcommittee today with respect to the Food and Drug Administration overall is what we are trying to do within the agency with respect to our operations, not only from the standpoint of the establishment of priorities and the allocation of resources, but also very especially the approach that we take in dealing with regulated industry, as well as with health professionals, consumer groups, clinicians, and the like. We are trying very hard to foster a spirit of openness and cooperation, recognizing our mandated responsibilities under the law as well as by public expectation, trying to set goals clearly to establish consensus as we approach the problem-solving areas, so things get done with the least amount of harm and greatest protection of the American public.

NEW DRUG APPROVAL

One area in which, I know, you in this subcommittee have a special interest is orphan drugs. As I detailed to you in a recent letter, I think we have made significant progress. We at the FDA are proud of what we have done to foster the development of orphan drugs and give them due attention with respect to regulatory requirements, and I believe that the new board which has been created by Secretary Schweiker and will be chaired by the Assistant Secretary for Health, with FDA, CDC and NIH participating, will help us to be productive in this area. Also, through our own FDA orphan drug organization, we have been working with groups such as the Pharmaceutical Manufacturers' Association, which Dr. Cooper heads, and we are sanguine about the commitments and goals we think can be attained.

Indeed, as you know, the whole drug approval process is one of very special and widespread concern and is also something which I have been interested in for a long time as a physician and pharmacologist. We believe a number of areas we have addressed more fundamentally with recommendations for changes in policy and regulation, where necessary, will alter the drug approval process in such ways as the acceptance of foreign data, the appeals procedure, the requirements for data submission, the accurate maintenance of the various time periods that are necessary in the drug review process, and will allow us to even improve our record.

We were very pleased last year that we did at least set a record, at least since 1962 when the drug efficacy amendments were passed. We approved 27 totally new drugs, some of which I have detailed in my written statement. We think they are rather significant advances in medical treatment in this country.

Another approval of this past year, that for Hepatitis B vaccine, is exciting not only for the medical advantages that it will bring to the American people, but also because it very clearly was the result of a cooperative effort by the Food and Drug Administration, the CDC, the National Institutes of Health, the private industry, as well as the health professionals. And I think that that cooperative productive effort is the reason the vaccine was developed and approved as quickly as it was.

REGULATORY REVIEW

As you know, we have committed ourselves to reviewing all of our regulations, asking the appropriate, albeit often touchy, questions of whether they are appropriate to the goals that have been set, whether the goals themselves are appropriate, whether regulations are the best way to accomplish that which we are expected to do, and whether there are alternatives that are more efficient, more cost effective, and more appropriate. We will very shortly publish a timetable for the review of our regulations. I remind you it is some 3,700 pages so it is no small undertaking, but I think it is a necessary and appropriate one.

Also, as I am sure you are aware, we are revising the good manufacturing practice regulations for foods, attempting to more sharply focus them on quality control objectives rather than on specific methods of processing.

I believe, Mr. Chairman, that the public expects a great deal from the Food and Drug Administration, and I think it is incumbent upon us in 1982 and beyond to find the best ways to fulfill their expectations. Certainly, one way is to maintain a strong science base within the agency. In the eighties that is a challenge, to recruit and maintain with appropriate facilities, first-rate scientists. We feel we have good scientists, and we continue in this effort, recognizing that the scientific challenges and opportunities before the agency in the coming years will be very great indeed.

A few years ago nobody knew what recombinant DNA, hybridoma research, and production of vaccines were all about. Now we are beginning to see not only basic research, but also practical research and new science implementation of some of these methodologies. As you know, when we talk about residues in food, we no longer talk of parts per thousand but of parts per trillion. This means two things. First, we need the scientific capability to address these problems in an appropriate and timely fashion. It also means that we must be reasonably flexible so we can handle the data; in short, science is not dictating what is done, but rather what the goals are. Science is a useful and necessary means of implementation.

FDA BUDGET REQUEST

One last thing I would mention to you, Mr. Chairman, is with respect to our budget request for fiscal year 1983. The efforts of the Congress and the administration to reduce Federal spending, obviously, have made us look very hard at our programs and set our priorities very carefully. We have sustained certain resource reductions in 1981 and 1982, but I believe that even though we are a bit leaner, we are just as strong and have the necessary resources, and that this budget will allow us to carry on the necessary programs that are planned, as well as the emergencies.

I embark in my second year as Commissioner—and the Agency on its second 75 years of service—optimistic, recognizing the problems and challenges confronting us but believing we are prepared to go forward in a spirit that is, above all, productive in the very best sense of the term.

I have no further comments at this time, Mr. Chairman, and would be happy to respond to questions.

Senator COCHRAN. Thank you very much, Commissioner Hayes. We appreciate your summarizing the statement for us. I also want to thank you at the outset for furnishing me this letter dated March 9, 1982, in connection with the hearings that were held down in Mississippi to help us complete the transcript of the hearing on the poultry industry and its efforts to comply with Federal regulations and still make money. We think that those hearings were quite helpful to those who were able to participate in them. We think the transcript will be very helpful to us as we look at legislation in that area during this year.

BUDGET REQUEST

I notice that you are requesting a small increase in your budget this year. Last year, you had $328 million. This year the request is

$356 million. In your judgment, is that going to be an adequate amount for you to fulfill your obligations under the law?

Dr. **Hayes**. I think it will. It is not in the strict sense a break-even budget. It is short about $10 million in inflation costs, and there is a net loss of 39 additional positions. The requested increase is entirely for mandatory items as well as a small, one-time request for the necessary separation costs, since, as you know, we propose to discontinue the batch certification of antibiotics, which we feel is no longer as necessary as it was 35 years ago. We believe antibiotics should be subject to the same regulatory controls as all other drugs, including review and approval of applications, inspections, and surveillance of the marketplace. So that is a special one-time request.

I think, quite candidly, we will be able to do our job. There is no question our priorities will have to be carefully set. There is also no question that when an emergency recall comes about, both the direct and indirect costs shift in the diversion of resources that one has to realine priorities. For example, the mushroom recall of last spring of 15 million cans—it was a class one recall; we felt there was imminent danger in the botulinum toxin—cost the Agency $4 million in direct and indirect expenses. There is no way you can program how much a recall will cost. We would like to think there will be no recalls in fiscal 1983. Obviously, when they occur, they take first priority, as they necessarily should. We believe, barring something unforeseen, that the request for 1983 will allow us to function as the law and Congress and the public expect.

SALMON RECALL

Senator **Cochran**. You also had a recall for some canned salmon; did you not?

Dr. **Hayes**. We did indeed.

Senator **Cochran**. That was just recently; wasn't it?

Dr. **Hayes**. Yes; it was.

Senator **Cochran**. Have you had time to assess the resource impact of that recall?

Dr. **Hayes**. No, I really have not, and we really do not know at this point how extensive the recall will be. That is to say, the original problem occurred with some canned salmon that, in fact, was consumed in Europe, in Luxembourg. Two people became ill, and one died. Officials from the United States and the countries involved tracked down the problem to botulinum in the can. We have met with industry, and the company has initiated, with our help, the recall. What remains now to be done, and it is impossible to estimate the cost, is to examine the literally tens of hundreds of thousands of cans to see how widespread the problem might be.

If you would be interested, I have some pictures you might like to see that are labeled. The problem was a hole in the can, and we were concerned that when these cans were heated, the botulinum spores might get in the can and grow. That is, in fact, what has happened. I have made a blowup to show you. This is the hole in the can. Because of the defect in the way the cans were made, the salmon has dried over the hole allowing a perfect incubator, that is, lack of oxygen but plenty of food and water for botulinum to grow. As the pictures indicate, it was found in a number of parts of the country.

In fact, there are three recalls involved at this particular time, but how extensive it will be, I don't know. One of the things that has been helpful in this recall is the cooperation of manufacturers and food processors to do the recalling as efficiently as possible. We also have received, as we always do, significant help from the States involved through their inspection system. They relieve a great deal of the burden, but, of course, at a cost to them as well.

IMPORTED FOOD INSPECTIONS

Senator **Cochran**. With the limited resources you have to work with, I am concerned about the percentage of imported foods that can actually be inspected or monitored by the Food and Drug Administration. I am advised that in 1977, for instance, the General Accounting Office reviewed inspection of imported foods and found that only about 17 percent of the entries of FDA-regulated products imported during fiscal year 1975 were inspected; 83 percent were not inspected; 90 percent of the dollar value of all FDA-regulated imports was food products. I wonder whether or not those numbers have changed since that GAO study in 1977 and whether or not you think this is a serious problem with microbiological contamination or other kinds of contamination that may be in imported foods.

Dr. **Hayes**. It is always a potential problem—and this relates to imported foods as well as other products—the problem being that one does not have the opportunity with imported foods that one has with foods produced here to see them before they are in the country, in most cases. You can't visit the factories to see the machinery and the labeling. There are some exceptions where we can inspect overseas, but cannot generally. That means that we have to be good detectives, detectives in the sense of knowing where there may be bad food, and especially knowing where it comes from or what the track record is of the particular country or farm or segment of the agricultural industry. So we attempt, and I think we have been reasonably successful, to be as efficient as possible and to know the right indexes to inspect.

But it is a problem. I think probably the best answer I can give in terms of results is that even though this program has not changed in terms of percentages, as you inquired, there really have not been a great many problems. Most of them have been minor. Many of them have been prevented from ever becoming problems in terms of consumption in this country, and we think the track record is rather good. But we continue to be very vigilant in this area for the reasons I have mentioned.

Senator **Cochran**. What kind of enforcement tools do you have available to you to do something about repetitive violations or problem importers?

Dr. **Hayes**. There is really not an awful lot we can do about that outside the country, in terms of criminal proceedings or procedures that might otherwise be appropriate. I think that if we see repetitive violations, what it tells us is we have to be very careful of that country, that shipper, that particular product, or the like. We do have the authority to prevent the importation of anything. We can detain the products. So it is not as if we are powerless to prevent the problem once it is identified or the index of suspicion is high and we believe it may be a problem. We detain the products until we can resolve that there is no problem. But there is nothing we can really do outside the country, and we really have to wait until the products are in.

Senator **Cochran**. Senator Burdick, do you have any questions?

INFANT FORMULA RECALL

Senator **Burdick**. Dr. Hayes, I am interested in following up your comments yesterday regarding the infant formula recall. How long has the FDA been aware of the defective formula, and how was the matter brought to the Agency's attention?

Dr. **Hayes**. It was brought to the Agency's attention by the manufacturer who had received the data from their contracted analytical laboratory, Hazelton Raltic. It was brought to our attention on March 2.

Senator **Burdick**. Of last year?

Dr. **Hayes**. No; of this year. This is, in fact, just happening. The first problem which related to the nonmilk formulas was brought to our attention on March 2 and actually ensued on March 3. That was the problem that vitamin B–6, an essential ingredient, had not been added to the formula. Children who eat the formula exclusively would be deprived of it.

The act you may have read about that was taken yesterday was a recall by the same firm for five lots of their milk-based formula where the vitamin B–6 had not been added, because the formula is made from milk, and there is natural vitamin B–6 in milk. There is some, but it is not the required amount as stated in the Act, and we feel that is a hazard and should be recalled. The company is doing just that.

Senator **Burdick**. Are there any actual cases where the formula has been linked to convulsions and brain damage in infants?

Dr. **Hayes**. In this particular recall, not to our knowledge.

Senator **Burdick**. In any in the past?

Dr. **Hayes**. Yes. The last time there was a vitamin B–6 deficiency, which occurred in 1951 and 1952, in that particular situation there were, in fact, a number of infants who suffered problems such as convulsions. There were also a number, we were told at the time by the medical experts, who in fact had suffered irreversible brain damage, a form of cerebral palsy.

Senator **Burdick**. The formula that is out without the B–6 included, will all material be withheld from the market until that is done?

Dr. **Hayes**. Absolutely. Not only will that material that is deficient of B–6 be withheld from the market, but the recall, as a class one, extends through the distribution chain, through public announcements and information all the way to the consumer.

CONGRESSIONAL ACTION ON HAZARDOUS FOODS

Senator **Burdick**. What can the Congress do to be helpful to see that this potential hazardous food doesn't happen again?

Dr. **Hayes**. I think things are in place. I think the Congress has done its job very admirably in passing the Infant Formula Act. I believe the regulations that that act called for and which are being promulgated, one with respect to recalls and one with respect to quality control, should prevent this problem in the future if appropriately followed and enforced, which is the responsibility respectively of industry and the Food and Drug Administration. I think it will solve the problem by preventing its occurrence in the future. I don't think there is any additional legislation required.

LOOK-ALIKE DRUGS

Senator **Burdick**. I have received letters from several very irate constituents whose children have gotten unsolicited letters offering look alike drugs. Can you explain to the committee what some of these fake drugs are and what effect they have on users?

Dr. **Hayes**. I believe you are referring to the so-called street look alikes; that is, drugs that are dressed up so that they look like hard drugs, restricted drugs and the like, and in fact are not and contain over-the-counter ingredients. The most common ingredient in those is caffeine. Many of them contain phenylpropanolamine. These substances taken for appropriate indications and in the right doses are not of themselves necessarily harmful.

We believe, and I think this has been borne out from a number of Senators, that one problem is that often young people will take inordinately high doses, or take them with other drugs. If you are expecting to get a kick that you think a "hard drug" will give and you don't, the temptation is to take more until something happens. That, obviously, exceeds what would be a rational dose for an otherwise safe, over-the-counter drug or ingredient. We believe that is one of the problems.

The real problem, in the view of many, is that it is bad for young people, or anyone for that matter, to think that they are getting hard drugs or that it is a good thing to take hard drugs for any reason. Obviously, the easy availability of these street look-alikes aids and abets that sort of mentality among young people, and that is why we are as concerned as we are.

I am sure you are aware the Food and Drug Administration does not have the legal authority to do everything we might otherwise like to do, although several months ago, with U.S. marshals and the help of State and local officials, we raided some dozen or more places that manufacture these street look alikes and not only confiscated large amounts of drugs and empty capsules, but also a great amount of the machinery. If the drugs are mislabeled to do something that they will not, then it comes under the Food, Drug and Cosmetic Act, and we can do something about it. Unfortunately, there are some who would like us to do more. I think many in the agency, especially those who are parents and have a concern, would like to do more. But the fact is the authority is not there.

Senator **Burdick**. These drugs in themselves don't contain too much harmful material, but, in fact, psychologically they might create a desire to use something stronger?

Dr. **Hayes**. I think many would agree with that. Also, there is misuse. They are not harmful, at least relatively so, if used appropriately. But if you take them in very, very large doses or with other drugs or alcohol, then the predictability and assurance of safety is something else. Almost any drug can be abused. There is no drug that is so safe you can take inordinate quantities under any circumstances, at any age and be immune from harmful effects. That is the fundamental medical concern.

Senator **Burdick**. My question is if you don't get a kick out of a drug that is taken, might they then reach out for something more harmful?

Dr. **Hayes**. I think so.

Senator **Burdick**. It establishes a desire.

Dr. **Hayes**. I quite agree. That is what I meant by changing the mindset. They are available, and therefore, you get used to them and what they might do. There is a whole culture that has built up around the use of illegal drugs.

Senator **Burdick**. Can you describe what steps the FDA is taking to curb these substances or whatever you can do within the present law?

Dr. **Hayes**. I will defer to counsel, Mr. Scarlett, as to just what we can and can't do within the law. But one, we have tried through educational means, and we do have a number of productive modes here, to make people aware of what street drugs are and what we believe is the inherent risk. Second, when drugs are mislabeled or when they are sold for a use that has not been listed, we can, under the current law, as we did several months ago, confiscate the drugs and the equipment used for making them. We also can and have quite aggressively been working with other agencies within the Federal Government, as well as State and local governments to make information available to them or to assist them in any way we can to get rid of these drugs.

FDA SEIZURE OF COUNTERFEIT DRUGS

Senator **Burdick**. Well, this presents kind of a legal quirk, to my mind. If these drugs aren't harmful, how do you seize them?

Mr. **Scarlett**. There are two provisions of the act that authorize us to take action against products that aren't harmful. The first provision makes it illegal to counterfeit drugs. A lot of these OTC look-alike drugs are made to simulate the trademarks of controlled substances by including the serial number on the final dosage form or the abbreviation for the company name, for example, Pennwalt amphetamines, and the manufacturer of the OTC look alike will mimic it. It will adopt some of the Pennwalt trade insignia. That is made illegal under the Food, Drug, and Cosmetic Act, and we can seize that as well as the equipment. There are criminal penalties and injuctive actions we can use. But we have, in fact, used our seizure authority to seize drugs that are counterfeit.

If the manufacturer of the look-alike capsule does not want to counterfeit the drug but merely to copy the size, shape and color of the manufacturer of the controlled substances, we can probably use our imitation drug authority under which a drug is considered to be misbranded if it is an imitation of another drug. That gets a little more difficult. If the product is not an imitation of another drug—and we have been told that OTC look alikes will be made with red, white and blue stripes if that is what is required to get these dealers out from under FDA—products like that could be proceeded against only if there were safety problems under the intended conditions of the product. That gets even more difficult for the agency to deal with, because we would have to present evidence in court that a capsule with caffeine in it presents a risk to health if taken under the conditions of use prescribed in the label. Probably, under those conditions the product would not be unsafe, because what is unsafe is the street level abuse of the product; we do not have a solid legal grasp on that kind of product.

Senator **Burdick**. So then, for a capsule that is inherently unsafe and doesn't have any harmful ingredients, you can move quickly?

Mr. **Scarlett**. Yes, the difficulty is often that the labeling is correct when the product is shipped through the distribution chain. It is only at the end of that distribution chain that the product is taken out of its container with the proper labeling and sold on the street or in the head shops. Therefore, at those points at which FDA can get at the product, it is correctly labeled. At the point when it is not correctly labeled, it is really beyond our ability to control. We can't put agents out on the street to watch the abuse actually taking place.

Senator **Burdick**. To your knowledge, this law that follows the drugs that you say are inherently harmless, has the law over them ever been challenged as going beyond your authority or anything like that?

Mr. **Scarlett**. I don't think it has been challenged in the broad sense. What we are using are two species of misbranding charge, and people may challenge the specific application of the law in a given case. But I am not aware of challenges to the misbranding charges.

RECOMMENDATION OF ADDITIONAL LEGISLATION

Senator **Burdick**. Would you recommend additional legislation to try to control this?

Mr. **Scarlett**. I think it is a problem, perhaps, best dealt with at the State level. There are many State laws currently under consideration, in several States enacted, to deal with these OTC look-alike drugs. I do not think that additional Federal legislation would necessarily help the situation, because to enforce that law, you would get into the street level abuse area with agents and the follow-up in that way. I am not sure that the Federal Government is really equipped to do that on a nationwide basis.

Senator **Burdick**. Do you feel the same way, Dr. Hayes; although these drugs are harmless in and of themselves, they might become harmful in two ways—by overuse and, second, by inducing an experimentation with harder drugs?

Dr. **Hayes**. I think that is true. There is also an additional risk that almost puts one in a catch-22 situation. That is, if an individual becomes used to taking three or four capsules a day of one of these look alikes with the harmless ingredients, or at least not controlled substances, and they should get ahold of the real thing, they can do themselves terrible harm or kill themselves. They suddenly switch to one more potent and don't change the dose, and you can have overdoses and deaths. I am not suggesting for a minute you should make OTC look alikes available to wean users away from the harder stuff. I don't think that is the way to solve the problem. But there is a problem with one who switches back and forth one from the other can get in trouble going from the hard stuff to the look alike if he increases the dosage and it becomes a harm; or if he goes from the OTC to the other and he is used to a bigger dose, he is going to do harm because of the harmful effects of the hard drug.

Senator **Burdick**. Thank you.

Senator **Cochran**. Thank you, Senator.

ORPHAN DRUGS

Senator **Andrews**. Thank you, Mr. Chairman. That has been an interesting line of questioning.

I also want to take the opportunity to congratulate you on the efforts you are taking with the look-alike drugs, and what you are doing in introducing new drugs, the ones that have been labeled "orphan drugs." The hearings in subcommittees in the House and Senate have expressed concern over the potential new drugs that are simply not becoming available to the people in the United States, because it is just not worth it to go through the expensive process of getting the drugs approved for distribution. We have the same thing in agriculture with a lot of herbicides and pesticides, because they are for minor crop use. It doesn't pay for the registration, so we find our Canadian competitors moving ahead with them. People who have a specific physical problem that you are attempting to address by your orphan drugs are being benefited. I want to tell you it is something we have been waiting for for a long time.

SODIUM LABELING

I wanted to spend my time, and I have to return to another hearing that I have recessed, to cover some questions on the issue of food labeling. I have had an interest in food labeling for some time now. I think we ought to do more of it. I think there ought to be better labels. I testified at one hearing before one of your predecessors, Carol Foreman, on labeling of cooking oil, and specifically sunflower oil. But I think we are making the point the public can only be protected if they have the ability to perceive what is, in fact, in food.

You have come a long way, and industry has come a long way in the field of traditional labeling. You testified we have to foster a cooperative spirit with the industry by promoting voluntary action on the part of industry wherever possible. We have done it voluntarily, because we haven't legislated it. It is your responsibility, but it is also the Congress' responsibility.

I am becoming concerned over the notice that was in the January 13 calendar of Federal regulations that FDA intends to propose mandatory sodium regulations to apply to foods bearing voluntary nutrition labels. This bothers me, not because I am not in favor of labeling—I am very much in favor of it—but I think if we start to go out and say, hey, any of those who are putting a label on the voluntary way are going to get stuck with the analysis of sodium on your foods, we may well find out we are going to have fewer foods labeled because of it. Isn't such a proposed rulemaking inconsistent with your policy of giving the voluntary sodium labeling program until February or March 1983, and then considering a mandatory program?

Dr. HAYES. I believe, Senator, that mandatory sodium labeling across the board would be absolutely inconsistent, and, as I am sure you know, I have testified rather vehemently against such mandatory labeling.

Senator ANDREWS. I know that. You are making it mandatory on those who have come ahead and done what, I think, everybody should be doing.

Dr. HAYES. No, it won't. First of all, we are only proposing. These are not final rules at all. We really would like to know what the various groups think, and we have talked with many of them.

SODIUM LABELING

What we are proposing in the labeling is, one, some suggestions for definitions, so that the terms "no added sodium" or "low sodium" or "moderately low sodium" will mean the same thing on all labels, so "low sodium" doesn't mean one thing on a can of tomatoes and something else on a can of peas and something else somewhere else. Consumers like to use terms like that. They are used to them. Therefore, if those terms are to be used—and there is nothing even in the proposals that says anyone has to use them—our suggestion in the proposal is that a certain standard be followed so they have the same meaning.

The second aspect of the proposal, which relates to mandatory labeling, is that if a company chooses to put full nutritional labeling on a can, then we feel sodium is important enough that it ought to be there along with vitamin B_6, B_1, and everything else.

That is really the only mandatory aspect. We are not telling people, processors, and manufacturers they must label for sodium. We think that is a voluntary program. As you know, we think it is going extremely well. Indeed, when we started last March or so, the labeling was 13 percent of the dollar volume of products, and this year it is going to be up to some 40, 50, 60 percent, to saying nothing of the other things that are happening. So we are sanguine about the voluntary program and have spoken long and hard to its voluntary nature, productivity, and efficiency. We do feel it is worth proposing and discussing—and indeed this is not our suggestion alone—that first, if a processor chooses to use a term, then it ought to have the same meaning and not be dependent upon the manufacturer. Otherwise, people will become confused rather than helped, and terms could be misused even inadvertently.

Second, we feel if a processor feels that full nutritional labeling is appropriate for his product, that with everything that has been and is being said about sodium and health—60 million hypertensives—in fact, it should be part of the nutrition labeling.

VOLUNTARY NUTRITION LABELING

Senator **Andrews**. Certainly, I can't fault that. My concern is, might this not be a step backwards because the companies that are now using nutritional labeling voluntarily are in the process of reducing the sodium content of their products, and they just don't have the reliable or final information available. If they were put in the position of being forced to use sodium labels, do you know how many might drop labeling entirely?

Dr. **Hayes**. I don't. But from our discussions with them, and there are some companies that do a great deal of nutritional labeling, many feel it is not only appropriate but are already doing it, and have on their own, without any regulations, added sodium to nutritional labeling because they think it is appropriate. If we learn during the comment period for this proposed regulation that some companies or some segments of the industry for different kinds of food feel that it is not appropriate as part of the nutritional labeling—from them—this is something we have to hear and talk about. This is the only way we can find out what everybody thinks, especially those who feel they have a special problem. I think it would be difficult for us to say definitively that we do not believe sodium is important enough to be considered in this proposal to be included in voluntary nutritional labeling, and yet to go about all the efforts we are, saying it is probably one of the most important constituents in the American diet, for the 60 million hypertensives and many more. We think that is inconsistent to the extent we have to talk about it on a formal basis through the proposal, as we have with many in industry and health professional and consumer groups on an informal basis. No decision has been made, but I think not to suggest it would be inconsistent. I know for a fact that the health professionals especially would feel that we had been inconsistent in what we really felt was important, that we were saying one thing in encouraging a voluntary program and something else when it came to what nutritional labeling is all about.

Senator **Andrews**. My concern is this inconsistency with your statement today. You said, "One such effort, in which I also hope to encourage a voluntary spirit, is in the area of sodium labeling." Then you went on to say, "We believe such voluntary approaches will be more effective and less costly than total mandatory change by legislation and regulation."

Dr. **Hayes**. That is right.

Senator **Andrews**. Yet, you are making it is mandatory over here.

Dr. **Hayes**. Nobody has to do it, just as nobody has to label for sodium.

INDUSTRY COMPLIANCE WITH SODIUM LABELING

Senator **Andrews**. But then they might drop their labeling. I have been interested in this for so many years. I dealt with the possibility of commercial oversight when the Agriculture Committee was holding hearings on labeling and maybe moving ahead in the field of comprehensive, uniform, mandatory labeling that can be effective and can protect the consumer. So I am coming at it from a different standpoint than a lot of other people might. I think labeling is important. I think we ought to have definitive labeling. The thing that bothers me about this is that it is mandatory only if you are doing what you should have everybody doing anyway. This is where my problem is.

Dr. HAYES. Well, if we hear the message people are going to stop doing nutritional labeling if they have to include sodium, obviously a judgment will have to be made. We are not trying to subvert other important things for this. On the other hand, I think we would have been remiss, and this was the basis for my decision, to proceed in doing as we did informally and say if sodium is so important, should it not be on nutritional labeling if the processors feel nutritional labeling is important. If we hear in general, which I doubt, or in specific areas that it causes problems, or that it will force or may lead to other decisions the results of which we don't like, then obviously we are not going to do it. I am not trying to subvert this program. I feel too strongly about it. I am also not trying to subvert definitive labeling.

Senator ANDREWS. In your contacts with the industry you don't feel there is any problem in that they might withdraw their voluntary labeling?

Dr. HAYES. I have not heard that from anyone. I do know of a number of very large firms that have come to me justifiably proud that they have added sodium to their nutritional labeling, because they feel that is in the whole spirit of the sodium campaign.

Senator ANDREWS. I understand that you wrote Jim Broyhill sometime after the calendar notice appeared and said it was your contention to wait 1 year or 15 months while you are assessing the effectiveness of the voluntary campaign. If that assessment indicates the voluntary approach is not successful, then a mandatory program could be considered. Again, this statement seems to be inconsistent, somewhat diametrically opposed. What comments do you have?

Dr. HAYES. Only the same comment, that we feel that the uniformity of definition and the inclusion of sodium in nutritional labeling are things that must be discussed. Indeed, there are some who would put those into legislation forthwith, which would take it out of our hands altogether. We did not feel that was the case. Since we have been examining with all interested groups, including industry, health professionals, and consumer groups, the entire gamut of what should be done with respect to sodium labeling, content information, cooking information, restaurant information, and the like; this was an area that should be addressed forthwith. Indeed, there are some in industry who feel very strongly and have urged us to put out the proposal so that a decision can be made, and then everybody can carry on and know what is going to happen, rather than leave it in limbo by not addressing it and wondering if something won't happen by regulation or legislation.

RESEARCH ON SODIUM

Senator ANDREWS. Let me go to another aspect. According to the Smithsonian science information, there are some 207 Government-funded research projects dealing with sodium in food that were completed by September 30, 1981. These projects have cost the Government in excess of $7 million, perhaps up to $30 million, over the past few fiscal years. Have you evaluated this research prior to proposing sodium labeling and mandatory labeling?

Dr. HAYES. I think we know what is in the research, and most, of course, centers on such areas as the role of sodium in the genesis of certain diseases, the prevalence of certain kinds of food, and sodium content thereof in diets. I think we are conversant with the literature.

Senator ANDREWS. So you have essentially completed your evaluation of this research.

Dr. HAYES. We continue to evaluate. I don't think there is an issue of a journal, in a number of areas from nutrition to cardiology, that doesn't have something on sodium. There is one in the latest issue of the Medical Journal on the benefit of lowering sodium intake in hypertensives. So the literature and studies continue.

Senator ANDREWS. Are they continuing at a broad level? As I understand it, there are some 143 currently funded studies that aren't going to be completed until sometime later this year. Because of the interest in sodium labeling, we stepped up the number of projects, and those projects will be completed in this calendar year and will give even a broader field of information than we have had.

Dr. HAYES. But there are just as many starting. There are so many studies, both inside and outside the Government, about sodium and hypertension, renal disease, interaction with different genetic makeups, that there is never going to be a time when we will have all the information. I am not aware, and I think we know the studies, of anything that is going to answer any of these specific questions. In fact, the questions are really much broader than those being addressed by the studies. I think the general questions about the importance of sodium in the diet, its relation to hypertension and other cardiovascular diseases, the beneficial effects of reducing sodium, the very hard fact that virtually all Americans eat many times as much salt as they normally need for physiological function, have already been answered, though I agree there are many questions yet to be answered. And I think it is incumbent on us, as well as anyone else, to know where the research is taking us.

There are still some very big questions that won't be answered for years and years. What does it mean to reduce sodium in someone 3 years old, 5 years old? How important is a reduction in the almost inordinate consumption of salt by teenagers just because of their mode of living? What does that mean epidemiologically in terms of how many become hypertensives? We are beginning to learn of the benefits in lowering sodium intake in hypertensives. What is exciting about that is we have shown in studies over the last few years that mild hypertension presents a reversible risk. If you reverse that risk by lowering sodium rather than taking drugs, the efficiency, in terms of side effects, is better. We have data that show if you reduce the amount of sodium you consume, anti-hypertensive drugs not only work more effectively, but they have fewer side effects, mostly a reduction in the loss of essential nutrients. In the case of a hypertensive who is taking a diuretic, which is the first mode of therapy, if you reduce the sodium in that person's diet, that person will lose less potassium, and in some cases the potassium loss is a significant medical problem. If you don't lower the sodium, then the only way to keep the potassium is to tell the patient to eat a lot of food that contains potassium, which often contains sodium, or to take another pill that has potassium, or even to take it in another form that poisons the kidney to prevent its losing the potassium.

I suggest, from a physiological management standpoint, if you can do it all by lowering sodium, which means having low sodium foods and having an educated public and using a consistent formula, that you have done a very great thing in helping disease prevention and in health promotion by a most efficient means.

COOKING OIL AND FAT LABELING

Senator **ANDREWS**. You made a more brilliant position than my friend, Carol Foreman, made.

Let me follow that one step further. You made the point so well in the case of salt, let's go into cooking oils. As you know, you have soybean oils; you have corn oils; you have sunflower oil; you have safflower, and they are advertising on TV that they "contain no cholesterol." That is a bunch of you know what. None of them contain cholesterol. If you have a cardiac problem, you are interested in saturated and unsaturated fat, and there is a vast difference between margarines, cooking oil, saturated and unsaturated fats. The general public perceives the cholesterol issue as the big one. It isn't really. Here we now have voluntary information on labeling where you can pick up saturated and unsaturated fats. Yet, what is Food and Drug doing to make sure they stick with the key issue when they are advertising cooking oil and margarine instead of going off on some, frankly, nonimportant, totally nonrelated thing?

Dr. **HAYES**. It is like selling ice cream and saying it doesn't contain any spinach, and someone indeed thinks they are getting a better product.

I will tell you very candidly, Senator, I think the whole issue of fats in their most generic sense and health and diet is a terribly important issue. Unfortunately, the medical and scientific data on that issue is much less clear than on sodium and hypertension. But I believe it needs to be addressed, because it is not such a clear issue. Maybe, it has a high priority for a special reason, including the labeling and misinterpretation labeling. Indeed, I have told our Bureau of Foods, when we were talking about cholesterol and saturated fat labeling, that I did not want fat labeling of any kind to be considered together with other aspects of the labeling which the agency must address. I think it is too special. I think we have to look at it from a standpoint, first, of where the science is so we are on reasonable grounds in telling people something, before deciding what it is they want to know and should know, because you have to have education to buttress this, and then decide what should be on labels.

The situation becomes complicated. It is not just cholesterol and saturated fats, but indeed, it also gets down to the fact that there are some components of fats that the evidence strongly suggests prevent many of the so-called high-density lipoproteins. I am not suggesting labeling should have the difference between high-density lipoproteins and low-density lipoproteins. But it is important from a medical standpoint that we address the issues and decide what should be and shouldn't be labeled, and get that in the educational stream so people are not misinformed and are told exactly what is known so they can make decisions. It will not be easy, but I promise you the Food and Drug Administration, at least while I am there, will do that.

LEVELS AND EXTENT OF LABELING

Senator ANDREWS. Do you think the Food and Drug Administration under your leadership can come up with some suggestions for labeling that don't mean you have to get down to the one one-thousandth of 1 percent?

Dr. HAYES. I agree that gets a little troubling. Also, Senator, the important thing, whether it is sodium or any other labeling, but let's take sodium, is not only that the labeling is accurate and honest, but also that it is useful information. That is why I think low sodium should mean the same thing; otherwise, you have to carry a book to tell the difference between the brands. It has to be usable information. Going to the third decimal point in milligrams is not useful, because if you are talking about a hundredth or a thousandth in milligrams, then a hundredth or a thousandth of a milligram doesn't matter. The figures should be in such a range and allowances that when used in an appropriate way in planning a diet, they are usable figures. I promise you we are not going to ask to have information obtainable or potentially obtainable just because it is a good thing. If it is not usable information, then we have forgotten the goal, and that is to make low sodium foods available so on their own recognizance or advice of a physician people can follow the information.

Senator ANDREWS. Your predecessor told me at one point that any label having information on the five or six major components will embrace all the components that are critical to the average consumer. Is that true?

Dr. HAYES. Yes. I have to confess five or six, if you talk about all ranges. I think there is no question, in terms of usefulness for any particular person following a diet with a medical condition and with respect to what is important for those medical conditions or preventive situations, that there is a finite and probably a small number of things that are important, or that although they may be important, we do not know what to say because we do not know how to act upon the information we have. I think at this point some of the issues with fat are in just that limbo. If we don't have that information, I as a physician couldn't tell you I want you to eat these foods because they are very rich in lipoproteins; don't eat that because it is rich in something else. I don't think we have come to that point.

Senator ANDREWS. But if that information is on the label and an individual cardiologist can say, "Buy this type of margarine, this type of cooking oil," it would help. Without it on the label all we see is "contains no cholesterol."

Dr. **Hayes**. That is right. That is why it is important to decide what are the bits of information that a physician can use in instructions or a patient can follow, and see that that is the information that is there, that is the usable, relevant information. I think that is absolutely correct.

VOLUNTARY NUTRITION LABELING

Senator **Andrews**. Isn't it true that essentially 60 percent of the foods that are nutrition labeled are voluntarily nutrition labeled?

Dr. **Hayes**. I think that is probably close to a correct answer.

Senator **Andrews**. Your statement has been consistently voluntary nutrition labeling programs work, that you are confident that the percentage of processed foods that are voluntarily sodium labeled will increase significantly in 1982.

Dr. **Hayes**. I think it is happening right now.

Senator **Andrews**. And what your thrust is is to get some type of consistency between the labeling so the consumer can pick up the package and use it.

Dr. **Hayes**. If they want to use it. We are not proposing to say that you must say something is low sodium if it is, say, below 35 milligrams a serving. We feel if you want to use a certain term there ought to be a definitional basis. Otherwise, as I suggest, you are going to need a book because this brand says low sodium and that means below 20, but this brand is something different. Then it gets back to the cholesterol thing, and it is misleading.

Senator **Andrews**. Doctor, I appreciate your being here. You stimulated my attention even more. Possibly down the line we may come to a time where we come up with a type of uniform labeling of foods so we do know what is in them. I was appalled some years ago when we were going to prohibit breakfast cereal advertising. I would rather have my kids encouraged to eat something than nothing, and it is my responsibility to pick the right kinds of breakfast cereal. That is what I would like to have—the kind of labeling that tells me what is in it. I would just as soon have the companies do their job of selling the stuff so at least your children are going to be interested in one kind or another. Then I want to protect my right to know when it comes to what needs to be done in the family.

I do hope you will take a look at this and in any rulemaking you come up with that you are very careful we don't lose some of those who are labeling, because they don't have the data on their foods to put sodium labeling on or because you propose the rule in such a way that the label changes become inordinately expensive. We run into that in the meat industry where you get these label changes, and you have to stop a run and start it up again because of something on the label. The public's right to know goes out the window because the labels just aren't there.

I appreciate your candor.

Dr. **Hayes**. I encourage you, Senator, to keep reading labels, because if people don't read labels and use the information on them, of course, the sodium effort or anything else will collapse. It is an informed and concerned public that acts on the information that will make the voluntary program work.

Senator **Andrews**. They have to be usable. If you put 25 or 28 ingredients on a box, even with the new reading glasses I have, I can't read them. Somehow or another we have to limit the amount of items that are on these labels; then get some consistency, and then have a way of determining low sodium, medium sodium, and high sodium.

Thank you, Mr. Chairman.

Senator **Cochran**. Thank you, Senator Andrews.

CHOLESTEROL

You both might be interested in reading this article in the March 1982, edition of "Running World." It is entitled, "Cholesterol Is Good for You," by Dr. David Rubin. Maybe it should be called "Everything You Always Wanted To Know About Cholesterol but Were Afraid To Ask."

Senator **Andrews**. As a beef producer back home, I don't know about that.

Senator **Cochran**. Dr. Rubin says the Food and Drug Administration forbids any implication that low cholesterol or polyunsaturated fats will prevent heart attacks. That is what you said, Dr. Hayes.

Dr. **Hayes**. The evidence really is not there. Indeed, the evidence now, and I think it is growing, and rather good evidence is that it is more complicated, and a simplistic statement like that is not appropriate. The science community and health community would be the first to agree. If you fly in the face of good science and what the health community believes and say something contrary, they are not going to act.

Senator **Andrews**. From a totally nonscientific viewpoint, our European friends have a unique, rather high consumption of cholesterol in cheeses, butterfat, and other things like that. But they have a native American plant, the sunflower, for their basic cooking oil. Many suspect that is the basis they get by with a much higher cholesterol diet than we do. Who knows the relationship. That is the point you answered a few moments ago when you said we don't have that information, but it is important we put on the labels so we can make the choice.

Thank you, Mr. Chairman.

Senator **Cochran**. Thank you, Senator.

OVER-THE-COUNTER DRUG ADVERTISING

In talking about labeling and trying to fully advise the public, if that is possible, much of the conversation today has been about foods. I wonder about over-the-counter drugs and the huge advertising campaigns that accompany the marketing of such things as Alka Seltzer and the various aspirin-type drugs for pain and that kind of thing. What regulations, if any, exist to require candor and honesty with the consuming public, not that the public is being misled about the virtues or efficacy of taking these substances or medicines. I don't know what is in Alka Seltzer. Somebody told me it is sort of like aspirin and soda water. I don't know how much an Alka Seltzer costs, but maybe 50 cents, and one aspirin costs 2 cents. What is the responsibility of the Food and Drug Administration under existing law to insure that consumers are accurately advised about accuracy of over-the-counter drugs?

Dr. HAYES. With respect to advertising, that labeling on the box or package, are all scrutinized and approved by the Food and Drug Administration. But for over-the-counter drugs, Mr. Chairman, all advertising that is not labeled comes under the jurisdiction of the Federal Trade Commission. We have worked with them. We try to provide them with information, not only the labeling information which, we feel, should be the basis for advertising, that is, what is known about compound doses, side effects, but we also try to work with them in terms of what compounds are there and what our review panels have found and the like. But as far as direct responsibility for the advertising, it is the Federal Trade Commission.

Senator COCHRAN. Do you have a program for monitoring the labeling? Do you from time to time examine those labels?

Dr. HAYES. Absolutely.

Senator COCHRAN. On what kind of basis?

Dr. HAYES. On a regular basis. We look at labeling of compounds in a number of ways. Some of it is routine. Very frequently, it is because someone has brought to our attention, even someone within the agency, often outside, what they feel is inaccurate, misleading, or even false labeling. We have a division within our Bureau of Drugs whose responsibility it is to keep track of what is going on with labeling, and if there are problems found with routine looks at labeling, they are brought to resolution. We deal with the companies and others to sort it out and make clear to them what we feel and what our scientific experts feel is appropriate labeling. But unfortunately, at least directly, we have no jurisdiction over the advertising for over-the-counter drugs. We do for advertising of prescription drugs.

DMSO

Senator COCHRAN. I am told that many athletes, especially distance runners, have found DMSO helps to relax muscles. I understand DMSO is only available as an industrial solvent, or in some cases, as a medication for race horses. I know one can purchase DMSO by mail. What is the status of DMSO with the Food and Drug Administration as far as human use is concerned?

Dr. HAYES. Yes. It has only been approved for use in humans for one medical condition known as chronic interstitial cystitis, a disease of the bladder. There are a number of other studies currently underway looking at human use of DMSO, one for scleroderma, an autoimmune disease, that is usually a thinning of the skin and underlying tissues. There are other studies as well. The Food and Drug Administration and the expert advisory panels under whose jurisdiction this falls have had concerns over the years, and continue to, about the efficacy of the drug as well as its safety. There have been reports going all the way back to the midsixties about eye changes in those who took DMSO, and the data at this point really just are not there to make a valid, defensible, scientific decision that yes, it does this, and no, you don't have to worry about dozens of certain side effects.

For cystitis, two studies were done. One, in fact, was not a good study, we were persuaded, but the other was. This is a special disease where there is special need and no other adequate way to treat it. When used as a liniment, then we feel the safety issue is a very important one.

ORPHAN DRUGS

Senator **Cochran**. Last year, we took a look at your activities with respect to orphan drugs. You mentioned in your statement that you have an established agencywide group coordinating activities in the area of orphan drugs. We appreciate very much the letter that you referred to, and that we have, about your activities and the program that has been developed.

CORRESPONDENCE

I want to be sure this letter is made a part of the record and to compliment you for the aggressive way you have gone about trying to attack that problem and the others that you have encountered in your 1 year as Commissioner of the Food and Drug Administration. I am convinced you are doing an outstanding job, and I want to compliment you on that.

Dr. **Hayes**. Thank you.

[The letter follows:]

LETTER FROM ARTHUR HULL HAYES, JR.

The Honorable Thad Cochran
Chairman, Subcommittee on Agriculture
and Related Agencies
Committee on Appropriations
United States Senate
Washington, D.C. 20510

MAR 5 1982

Dear Senator Cochran:

I am writing to bring you up to date on our activities in the area of "orphan drugs." We have been reviewing our programs in this area in response to the Committee's Report on our 1982 appropriations, and I would like to take this opportunity to let you know of recent developments in this area, to be sure the Committee can understand our commitment to this problem.

We have identified in the budget those resources directly associated with "Orphan Drugs," and summarized our efforts in this area in the Justification of Appropriation Estimates for 1983. However, there have been further developments since the Justification was furnished, and there are a number of activities being conducted outside of FDA which relate to the Committee's concerns.

Orphan "drugs" is a term often used to describe drug products that are useful in the treatment of rare diseases but that are not developed because there is not enough financial return for drug companies to spend the funds needed for research to obtain approval for marketing. The term has also been understood by some to refer to drugs that are used for more common diseases but that are not eligible for patent protection and therefore fail to attract sufficient commercial interest. The problems presented by so-called orphan drugs have long been recognized, and various parts of the Public Health Service (PHS) have addressed orphan drugs on an individual basis. For example, the National Institutes of Health (NIH) and the National Cancer Institute (NCI) support considerable research on orphan drugs through grants and contracts. The National Institute of Neurological and Communicative Disorders and Stroke is developing new therapies for convulsive disorders. The National Institute of Drug Abuse (NIDA) has sponsored the development of drugs useful in treatment of narcotic addiction, and the Center for Disease Control (CDC) maintains a supply of drugs for tropical diseases that occur in the U.S. at rare intervals.

In 1981, the Pharmaceutical Manufacturers Association (PMA), representing most of the larger manufacturers of prescription drugs, established a Commission on Drugs for Rare Diseases. Academic and other investigators or institutions can submit information on promising compounds or basic research leads to the Commission. The Commission then may seek drug company sponsorships for such drugs. FDA and CDC have suggested drug candidates to the Commission, and these agencies, along with NIH, have liaison representatives to the Commission.

There is also significant interest in orphan drugs in the Congress, the drug industry, and among the public, and it is clear that nothing short of a comprehensive, coordinated effort is needed to deal with this problem. Many elements of the PHS and other government agencies, plus the private sector, are involved in this issue. What is needed is coordination of government-wide activities as well as expanded liaison with groups outside the government.

In response to this need, and in accordance with the Committee's recommendation, FDA has proposed, and the Secretary will shortly be announcing, the formation of an HHS Orphan Drugs and Products Board, to be chaired by the Assistant Secretary for Health.

The goal of the Board will be to do whatever is needed within the government to expedite the development and approval of designated orphan drugs. The Board will consist of representatives from HHS agencies; and hopefully will include representatives from other government departments such as Defense, the Veterans Administration, and Commerce.

The Board will seek to do the following:

- Actively look for orphan products that need development or other assistance to secure marketing approval. The Board plans a close liaison with the PMA Commission on Drugs for Rare Diseases to enhance existing interaction between industry and government on orphan products, and to ensure that industry and government efforts are not duplicated.
- Screen submissions for orphan products to be included in the program, and identify specific candidates for development. The Board would set priorities based on the product's potential and on how much and what type of data would be necessary for approval.
- Address the issue of how to accomplish needed research, by encouraging private initiatives and by identifying and fostering action within the government to expedite approval of orphan products.

FDA will play a very active role on the Board. As you know, for a number of years, FDA has consciously fostered the testing and approval of orphan drugs. A recent analysis of the 14 orphan drugs approved by FDA between 1978 and 1981 reveals that in four cases FDA either solicited submission of the NDA or sought a manufacturer to do so, and that in two cases FDA actually assembled data for evaluation or conducted laboratory studies on the drug. (A listing of these approved orphan drugs is attached.) FDA also uses the investigational drug provisions of the law to make available certain therapeutic needs that are going unmet; it solicits applications from manufacturers and provides technical assistance as needed. Following are some of FDA's activities which will be part of the overall PHS effort:

- Review all investigational drugs twice a year to identify candidates for submission to the PHS Board.
- Identify what data exist about specific orphan drugs, and what needs to be done to obtain FDA approval.
- Continue work on our own and with the PMA Commission to help find sponsors for orphan drugs.
- Assist in preparing protocols for needed studies.
- In selected cases, help compile data or provide assistance in assembling new drug applications from existing information.
- Assure that data requirements are appropriate for the limited use of the drug and the nature of the disease.
- Expedite the review of the applications for orphan drugs.

While the discussion above has focused on prescription drugs, we also must recognize that other health care products regulated by FDA also fall into the orphan category. FDA has had an historical interest, not only in drugs for rare diseases, but also in biological products where there may be little economic incentive for development. Consequently, we hope to apply our efforts in this area to biological products and medical devices as well. I have established an agency-wide group, under my leadership, to coordinate FDA's programs for orphan drugs, devices, biologics, and other products. It will also facilitate our cooperation with other Federal agencies, including NIH and CDC. The internal group has met several times; its establishment was well received by the PMA Commission on Drugs for Rare Diseases and advocacy groups for specific diseases when it was announced at the meeting of the PMA Commission on February 18.

For orphan products of interest to the PMA Commission, FDA will inform the Commission of the required additional data for each drug, and will then consult directly with any interested sponsor regarding its progress with drug development and submission of the marketing application. As an example of the types of drugs under consideration and the status of their development, I have attached a copy of the presentation made by Dr. Marion Finkel, our Associate Director for New Drug Evaluation, in the Bureau of Drugs, to the PMA Commission on February 18.

As you know, this whole subject involves many critical considerations, all of which must be treated with the utmost sensitivity. In determining our priorities, especially in view of practical economic considerations, we will seek to address those conditions of most urgent concern regarding the severity of the disease, the segments of the population affected, and the potential for early development of new therapies. The priorities and choices that must be made are difficult, and I want to assure you that it is our intention now and in the future to be as responsive as possible to the Committee's interest and direction.

I also want you to know that I very much look forward to seeing you again and appearing before you and your colleagues at our Appropriation Hearing on March 10. I am fully cognizant of the support you and your Committee have given to this Agency in the past and hope we will receive your continued attention and support in the future.

Sincerely yours,

Arthur Hull Hayes Jr.

Arthur Hull Hayes, Jr., M.D.
Commissioner of Food and Drugs

Attachments (2)

Orphan Drugs Approved Between 1978 and 1981

Drug (Brand Name)	Indication	Approval Date
Vidarabine (Vira-A)[2]	Viral encephalitis	10/18/78
Dantrolene Sodium (Dantrium) injectable	malignant hyperthermia	9/18/79
Calcitriol (Rocoltrol)	hypocalcemia in dialysis patients	8/17/78
Natamycin[2] (None)	rare fungal infections	10/30/78
Metyrosine[1] (Demser)	pheochromocytoma	10/3/79
Desmopressin (DDAVP)	antidiuretic	2/21/78
Metoclopropamide (Reglan)	gastric smooth muscle stimulant for gastroparesis	2/7/79
Isosulfan Blue[1,3] (Lymphazurin)	lymph node visualization	7/29/81
Potassium Iodide[1,3] (Thyro-Block)	thyroid blocking in a radiation emergency	11/9/79
Aminoglutethamide[1] (Cytadren)	adrenal function suppression in Cushings Syndrome	10/29/80
Alprostadil (PGE_1) (Prostin VR)	to treat newborn infants with congenital heart defects before surgery	10/16/81
Bretylium Tosylate (Bretylol)	ventricular arrhythmias	7/18/78
Calcifediol 25-Hydroxycholcalciferol (Calderol)	treatment of low blood calcium	8/5/80
Saralasin Acetate (Sarenin)	detection of angiotension II dependent hypertension	5/29/81

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[1] FDA solicited submission of NDA or sought manufacturer.

[2] NIH funded or conducted studies in support of the drug.

[3] FDA assembled data for evaluation or conducted laboratory studies on the drug.

PRESENTATION TO
PMA COMMISSION ON DRUGS FOR RARE DISEASES

February 18, 1982
by
Marion J. Finkel, M.D.
Associate Director for New Drug Evaluation
Bureau of Drugs
Food and Drug Administration

Sponsored Drugs

There are several compounds on FDA's list of examples of drugs of limited commercial value that now have sponsors who are willing to submit NDAs.

1. Acetohydroxamic acid for infected struvite kidney stones is sponsored by Dr. Donald Griffith of Baylor, who has formed his own firm.

2. An NDA for sodium cellulose phosphate for calcium oxalate stones in calcium hyperabsorbers will be submitted under the sponsorship of a university.

3. Naltrexone for the treatment of narcotic addiction is under active study by a drug company.

4. An NDA is also expected for amiodarone for angina and cardiac arrhythmia, although the quality of the evidence for effectiveness may be poor. The firm will not, however, support any new clinical trials.

5. NAPA, the main metabolite of procainamide, is an anti-arrhythmic agent which is useful in patients who develop a lupus-like syndrome to procainamide. There have been a number of published papers on its use. The drug has been purchased by Medco which intends to pursue Phase III studies and to sponsor an NDA.

Drugs Worthy of Consideration for Support

There are two drugs on this list which appear worthy of consideration by the Commission at this time and which do not have firm commitments for support. One is Trasylol, generic name aprotinin, the second is methacholine and the third, I^{131} norcholesterol.

1. Aprotinin, which is an extract of bovine lung, is marketed in Europe by Bayer AG for the treatment of pancreatitis. In 1968 an NDA was submitted in the U.S. for this use by a U.S. firm but adequate evidence for effectiveness was lacking and the sponsor withdrew the NDA a few years ago. The drug is being supplied to U.S. investigators by Bayer AG through the Mobay Chemical Corporation for the treatment of patients with marked insulin resistance. Mobay has no interest in its own IND or NDA. The sponsors of this research, Drs. Julio Santiago, Juan Sotos and others published a paper in the August 13, 1981 issue of the NEJM. This paper reported on the use of aprotinin in patients who required huge doses of insulin by the s.c. route but who, nevertheless, had poor control of their diabetes. When the insulin was given by the I.V. route only ordinary doses were needed. When aprotinin was mixed with the insulin and injected s.c., the total daily dose of insulin then approximated the amount needed by the I.V. route. Their patients were followed for up to 6-9 months. The authors also cited two other published reports on successful use of aprotinin. The mechanism of action of aprotinin may be inhibition of the excessive degradation of insulin which appears to occur in these patients at the s.c. site of injection but this is by no means established and another investigator has suggested that aprotinin may cause vasodilatation and increased absorption of insulin. Anaphylactic reactions to aprotinin are a possibility and one such case was reported in the December 3, 1981 issue of the NEJM.

2. I^{131} norcholesterol is an adrenal imaging agent. A large number of individual investigator INDs have been submitted. The cholesterol is being supplied by the Aldrich Chemical Co. to a nuclear pharmacy which prepares the radioactive compound for distribution to investigators. It is the FDA medical officer's opinion that it is safe and effective for its purpose. Apparently the appropriate dosage and proper conditions for use have been determined.

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Status of Other Drugs on FDA's "Orphan Drug" List

With regard to the other drugs, FDA has found a PMA firm willing to submit an NDA for Methacholine. Methacholine is used to diagnose occult bronchial asthma by means of a challenge test. It has been extensively used by allergists and pulmonary specialists for years and there are considerable data in the literature. FDA feels that the drug is safe and effective for this use and no new preclinical or clinical trials are needed. The pulmonary community has approached FDA with a request to solve this orphan drug problem.

FDA also has found a PMA firm willing to submit an NDA for L-5 hydroxytryptophan for postanoxic myoclonus. However, the firm does not wish to compile the clinical data or support any clinical research. If the principal investigator, Dr. Melvin Van Woert, will compile the data and provide them to the firm, the firm will prepare an NDA. Dr. Van Woert says that he does not have the time or resources to compile the data. FDA has met with Dr. Van Woert to describe the clinical information needed. We do not know whether Dr. Van Woert has adequate data for NDA approval.

Cobalt EDTA for cyanide poisoning may become obsolete. Dimethyl-aminophenol is considered to be a safer compound and the plant physician who has an IND for cobalt EDTA is now using the new compound.

Cyanoacrylate, a glue used, primarily, in neurosurgery, is a medical device. It is being distributed under an IND by a major company which has indicated that it may withdraw its sponsorship because so little is being requested. I do not know what the reaction of surgeons would be, in general, but a few apparently think the material is very useful.

p-chloro-L-phenylalanine is the subject of an IND submitted by a PMA member firm for the treatment of carcinoid syndrome. The drug is apparently not being studied for that use now, but rather for use in diarrhea and gas pains. The firm is keeping the IND open as a service item for these G.I. uses. We no longer regard this an "orphan" drug.

2-3-dihydroxybenzoic acid as an iron chelator in chronic hemolytic anemias has become a research tool at this time because slow infusions of desferrioxamine have been found to be more effective.

L-3, 4 dehydroproline is claimed to inhibit collagen synthesis, and it is being studied in the adult respiratory distress syndrome. Research is in the early stages.

Oral physostigmine for Friedreich's ataxia is the subject of a number of INDs. The principal proponent for its use is Dr. R. A. Pieter Kark who has published a number of papers, the most recent in the March 1981 issue of Neurology. Others have also used this drug for the same indication and some effectiveness is claimed. The drug may produce possible symptomatic improvement but there are no data on effect on rate of progression of the disease. Additional work is needed before any conclusions can be drawn.

Branched chain keto acid analogues of aminoacids are dietary supplements used to reduce blood urea and maintain nitrogen balance in patients with chronic renal failure. Mitch and Walser reported maintenance of nitrogen balance and delay in need for renal dialysis in uremic patients. Publications: Clin. Nephrol. 8:341, 1977; Metabolism 26:1041, 1977; Proc. Am. Coll. Phys., abstract 96, 1979. These preparations are apparently marketed in Europe for treatment of chronic renal failure. This research would appear to merit further scrutiny.

Sodium fluoride for osteoporosis is undergoing a controlled clinical trial supported by NIAMDD.

Cytomel injection kit for myxedema coma has been the subject of a service IND by SKF for many years. This appears to be a satisfactory arrangement.

I have not described the status of the drugs used for parasitic diseases since it is my understanding that tropical medicine drugs are not of high priority to the PMA Commission. Furthermore, for those drugs being distributed by CDC, it appears that CDC is satisfied with its current arrangement which affords it an opportunity to determine who is using the drugs and the incidence of disease in the U.S.

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SUBMITTED QUESTIONS

Senator **Cochran**. You have been very helpful to this subcommittee, Dr. Hayes.

Dr. **Hayes**. We appreciate your support. I have a lot of good people working with me. We have a lot of challenges and surprises, but we remain committed to our goal.

Senator **Cochran**. Before we recess, the committee will submit questions for you to answer for the record. They will be inserted in the record at this point.

[The following questions were not asked at the hearing, but were submitted to the Food and Drug Administration for response subsequent to the hearing:]

FOOD AND DRUG ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR COCHRAN

EPA FUNDING OF NCTR

QUESTION. You have a major research facility at Pine Bluff, Arkansas--the National Center for Toxicological Research (NCTR). As I understand it, this is jointly funded by you and the Environmental Protection Agency. Yet I notice the President's Budget for EPA requests only $910,000 for FY 1983, while FDA's request for NCTR for FY 1983 amounts to $16,292,000. Is this the traditional funding balance between FDA and EPA for the National Center for Toxicological Research?

ANSWER. First, the Agency would point out that the President's Budget reflects almost a 40 percent cut in EPA's Research and Development activities from 1981 to 1982, and further cuts in 1983. While EPA's contribution to NCTR is a small part of their Research and Development effort, it has been a very meaningful share of the support of NCTR. Since the founding of NCTR through 1981, EPA has provided from $4 to $5 million. In 1981 EPA funded $4.5 million, while FDA's costs were $15.6 million, making EPA's contribution about 21 percent of the combined support of the Center. EPA's contribution has remained relatively constant over the years, while FDA's budget for NCTR has risen over the years to provide for inflation.

For 1982, EPA projects a contribution of $1,823,000, which will be about 10 percent of the Center's costs. The proposed EPA funding of $910,000 in the 1983 President's Budget would be only about 5 percent of the total. However, we now understand that EPA has unilaterally decided to eliminate this all together.

By way of background, NCTR was founded as a result of a Presidential directive in 1971 as a joint project of (then) DHEW and EPA, and the Center was to be guided by a Policy Board on which both FDA and EPA are represented.

The most immediate problem FDA faces is that the EPA reduction would cause a reduction in the Center's funding from over $21 million in 1981 to about $17 million in 1982 and 1983. This would cause a severe reduction in the Center's basic capabilities. The Center must provide a variety of resource-intensive support functions, such as facilities maintenance, animal breeding and caretaking, and scientific support in such areas as pathology, chemistry, and microbiology. In other words, the Center must maintain a fairly substantial base of operations to conduct its research studies. While the Center is reducing its staffing by attrition and scaling down its contract support, we may have to make some adjustments within FDA resources to assure that NCTR can continue to operate at a meaningful level. The Center's unique scientific capability is an essential resource for FDA in providing the basic scientific knowledge for informed regulatory decisions.

NCTR does not only test specific chemicals for FDA's immediate needs--one of its primary purposes, and a basic reason why EPA was involved in its founding, is to advance the science of toxicology itself. As we have discussed with the Committee in recent years, advancements in technology have presented FDA with a number of problems in carrying out the law, particularly in the area of foods. Not only can we detect chemicals in foods at extremely low levels, but science has been detecting possible health effects at very low levels of exposure. Therefore, we must seek to improve our methods of testing and verifying toxicological effects, to be sure our regulations are based on valid means of evaluating health risks. For this reason, the Agency cannot overemphasize the importance of NCTR as a fundamental part of FDA's overall scientific endeavors.

Finally, the reduction of EPA funding will adversely impact on FDA's contribution to the National Toxicology Program (NTP). The NTP, a major initiative of the Department of Health and Human Services, was established within the Public Health Service in 1978 to coordinate research in Toxicology and to strengthen the science base of toxicology. At a time when the Federal government needs to consolidate its toxicology research activities, the reduction in funding by EPA may be construed that there is less of a commitment to consolidation and efficient operation of combined toxicology research activities.

EXPERTISE

QUESTION. You indicated in your explanatory notes that a new sort of expertise will be required in the areas of drugs and biologicals, in the field of diagnostic products regulated under the Medical Device Amendments, and in the areas of human and animal food additives. With the tight budget constraints, where and how will this new expertise come from?

ANSWER. There is no question that with more people and resources we could acquire more and better expertise in new technological areas. However, several approaches within the Agency are being taken to keep apprised of developing technologies in FDA-regulated industries. In 1980, the Agency conducted a survey entitled Forecast of Emerging Technologies. The results serve as a mechanism to prepare agency management for a broad spectrum of new and relevant technologies. The results also provided a firmer foundation on which the Agency could plan future activities linked to new technologies such as programs to evaluate hybridoma, recombinant DNA, and synthetic vaccine technologies. Because overall Agency awareness of this type of technology has been raised, the entire environment is now more receptive to technology-based program plans.

In addition, the Agency continuously monitors the development of new technologies in a number of ways, including screening the relevant literature, tracking the development of new technologies and their probable impact on FDA, participating in workshops and symposia with outside scientists, and making use of scientific advisory committees. These activities enhance our understanding of emerging technologies, and this strengthened knowledge base is applied in the development of program plans that address technological issues, when appropriate.

As the need has arisen, special committees have been formed or work projects developed by the Agency to engage in an in-depth analysis of particular technological developments such as recombinant DNA and new developments in food and color additives.

Under the current budget constraints, hiring within FDA has been frozen for quite some time, as the Agency attempts, through attrition, to get down to a reduced personnel level. However, when hiring once again takes place, acquiring this kind of scientific expertise will be a major Agency consideration.

FOOD LABELING STUDY

QUESTION. The food label format design contract with Robert P. Gersin Associates was to be completed by October 31, 1981. What is the status of this study? Has a contract for consumer testing of alternative labeling formats been awarded yet? If so, when and to whom? When will it be completed?

ANSWER. The food label format design contract with Robert P. Gersin Associates is now scheduled to be completed by early Summer, 1982. The reason the contract is taking longer than expected is that the scope of work was expanded to provide for more thorough consideration of alternative labeling formats. The Agency wants to be sure that potential labeling formats are designed to be as simple and understandable to the consumer as possible, and at the same time that they provide some flexibility for industry. Since the format design work has not been completed, FDA has not yet developed the contract for consumer testing of alternative formats.

NUTRITION LABELING

QUESTION. Has FDA reexamined compliance with the nutritional labeling regulations?

ANSWER. FDA is and has been examining the compliance aspect of nutrition labeling. We are attempting to shorten the lag times between sample collection, laboratory analysis, and regulatory actions against products found to be deficient. This process is extremely difficult in the case of perishable foods such as enriched bread and pasteurized vitamin-fortified fruit drinks. Vitamin deficiencies are being brought to the attention of the responsible firms. However, for the most part, firms are complying with the regulations and those few products that are found deficient are generally the result of overzealous labeling for individual nutrients; in other words, the food may contain the specific nutrient and would be considered nutritious, but the amount of the nutrient is not as much as stated on the label.

QUESTION. Will FDA be making any revisions to these regulations?

ANSWER. FDA has not decided yet whether any general revisions to the nutrition labeling regulations will be made. The Agency is reviewing a number of food labeling issues to determine what changes might be needed, and is still developing potential alternative formats for testing, to see if the usefulness of food labeling could be improved. The only specific change FDA expects to propose in the near future is the inclusion of sodium content in nutrition labeling.

BUDGET CONSTRAINTS

QUESTION. For the past couple of years FDA has been under rather tight budgetary constraints. What effect has this had on your drug approval process?

ANSWER. The drug approval process is among the Agency's highest priorities. Thus, in the allocation of limited resources every effort has been made to preserve drug approval activities including the timely review of new drug applications, completing the review of prescription drugs approved prior to 1962--the so-called DESI drugs --and completing the review of over-the-counter drugs. Activities are focused on making important new drugs available to consumers more quickly and assuring that old drugs conform to current standards of safecy and efficacy.

The Agency has been able to capitalize on efficiency in the drug approval process which has allowed us to issue more approvals and to do so in a manner that is appropriate and consonant with the laws and regulations. For example, 27 totally new drugs were approved in 1981--the most new chemicals approved as new drugs since the passage of the 1962 new drug amendments.

QUESTION. How will the budgetary constraints affect the operations and travel of your inspectors?

ANSWER. The major effects of recent budget reductions on inspectional activities have been a result of the type of attrition that has taken place under the hiring freeze. One problem has been varying attrition rates in different parts of the country, to which there is no easy solution due to the high costs of relocating employees and the uncertainity regarding employment ceilings. The major problem, however, has been attrition among clerical personnel, since these employees are less likely to make a career with FDA. Reduced clerical support has forced FDA's inspectors to make significant changes in their operating procedures, and in some cases to do much of their own paperwork. The Agency hopes that these problems can be reduced as FDA gets down to its target staffing levels, and new hiring can begin to address these imbalances.

Other types of problems have resulted from cost-cutting efforts. For example, FDA has reduced the number of cars it rents from GSA, and this has forced intensive efforts to reduce travel time through detailed planning of inspection trips, increased use of private vehicles, and delays when all available cars are in use. At the same time, inspection trips must be planned with the goal of minimizing hotel and other per diem costs. While these problems have a direct impact on inspector productivity, there are other areas that have different effects on the Agency's overall enforcement programs. Efforts to limit the costs of laboratory supplies, sample collection, and shipping can delay routine lab work. Equipment purchases have been largely curtailed, which increases maintenance costs on existing equipment. In the longer-range, however, deferring equipment purchases can not only lead to obsolescence of the equipment in place but also interfere with the Agency's ability to develop new and more efficient testing methods. In much the same way, reduced travel for training can lead to reduced levels of both skill and motivation among the Agency's employees. While the Agency must cut costs in any way possible to continue to meet its regulatory responsibilities, we are striving to address these imbalances and ensure a proper distribution of support costs, so that short-term cost saving does not mortgage FDA's future capacity to carry out its mission.

ORPHAN DRUGS

QUESTION. You mentioned in your statement an already established agency-wide group to coordinate activities in the area of orphan drugs. Please identify this group for the record.

ANSWER. The members of the FDA Orphan Products Coordinating Group are Commissioner Arthur Hull Hayes, Jr., M.D., (Chairman); Deputy Commissioner Mark Novitch, M.D.; Executive Assistant to the Commissioner, Robert Brady; Bureau of Drugs Associate Director for New Drug Evaluation, Marion Finkel, M.D.; Bureau of Biologics Director, Harry Meyer Jr., M.D.; Bureau of Medical Devices Acting Director, Victor Zafra; Associate Commissioner for Health Affairs, Stuart Nightingale, M.D.; Associate Commissioner for Legislative Affairs, Robert Wetherell Jr.; Associate Commissioner for Management and Operations, Gerald Meyer; and Acting Associate Commissioner for Policy Coordination, Kenneth Durham.

TOTALLY NEW DRUGS

QUESTION. You mentioned in your statement FDA approval of 27 new drugs. Please provide for the record a listing of all new drugs and what they are for.

ANSWER. We are submitting for the record an HHS News release which lists the 27 "totally new" drugs approved in 1981 and their indications.

[The information follows:]

HHS NEWS

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

P82-3
FOR IMMEDIATE RELEASE
Jan. 20, 1982

Food and Drug Administration
Christopher Smith -- (301) 443-3285
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HHS Secretary Richard S. Schweiker said today the Food and Drug Administration approved 27 "totally new" drugs last year -- the most new chemicals approved for use as drugs since passage of the 1962 legislation governing drug approval. The total is more than twice the 12 approved in 1980.

"We promised the American people we would reform the drug approval process, and last year marked a long step toward that goal," Schweiker stated. "Speeding the review of lifesaving new drugs will allow the public to benefit from medical advances without needless delay. I commend Commissioner Hayes for this important first step."

FDA Commissioner Arthur Hull Hayes Jr., M.D., said the 1981 total includes verapamil and nifedipine, both heart drugs known as calcium blockers; captopril, for stubborn cases of high blood pressure; albuterol, for asthma; sucralfate, for ulcers; and several antibiotics. (A list of the drugs and their indications is attached.)

Dr. Hayes remarked that two drugs in particular represented important therapeutic gains. Alprostadil can temporarily treat infants with congenital heart defects prior to surgery, and ketoconazole can treat internal fungus diseases.

Schweiker commented that the department is studying additional ways to streamline drug approvals, and he has charged a task force chaired by Hayes to recommend further reforms this spring.

The category of new drug chemicals represents one of the most innovative of the six types of FDA new drug approvals. Others are for new salts of previously approved drugs, new dosage forms, combinations, drugs being marketed by a new firm and drugs being marketed for new purposes.

The 27 new drug chemicals, and their trade names and indications, approved in 1981:

Generic Name	Trade Name	Indication
Albuterol	Schering's Proventil	Bronchodilator
Alprazolam	Upjohn's Xanax	Antianxiety
Alprostadil	Upjohn's Prostin VR	Palliative therapy to maintain ductus arteriosus in newborns
Amiloride hydrochloride	Merck's Midamor	Antihypertensive
Atenolol	ICI Americas' Tenormin	Antihypertensive
Bethanidine sulfate	A.H. Robins' Tenathan	Antihypertensive
Buprenorphine	Eaton's Buprenex	Narcotic analgesic
Captopril	Squibb's Capoten	Antihypertensive
Cefotaxime sodium	Hoechst-Roussel's Claforan	Antibiotic
Ceruletide	Adria's Tymtran	Antiulcer
Estramustine phosphate sodium	Hoffman-LaRoche's Emcyt	Antineoplastic
Flunisolide	Syntex's Nasalide	Symptoms of seasonal rhinitis

Gemfibrozil	Warner-Lambert's Lopid	Lipid regulating agent
Halazepam	Schering's Paxipam	Antianxiety agent
Isosulfan Blue	Hirsch Industries' Lymphazurin	Lymphatic contrast agent
Ketoconazole	Janssen's Nizoral	Antifungal (internal)
Mezlocillin	Miles' Mezlin	Antibiotic
Moxalactam disodium	Lilly's Moxam	Antibiotic
Nifedipine	Pfizer's Procardia	for angina
Piperacillin sodium	Lederle's Pipracil	Antibacterial
Saralasin acetate	Norwich-Eaton's Sarenin	Detection of angiotension II-dependent hypertension
Secretin	Kabi Group's Secretin-Kabi	Pancreatic diagnostic
Sucralfate	Marion's Carafate	Anti-ulcer
Sulfadoxine (Pyrimethamine)	Hoffman-LaRoche's Fansidar	Antimalarial
Temazepam	Sandoz's Restoril	For insomnia
Trazodone	Mead Johnson's Desyrel	Antidepressant
Verapamil	Knoll's Isoptin and Searle's Calan	Supraventricular tachyarrythmias

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BUDGET REQUEST

QUESTION. You indicated that a recent Roper poll confirmed that the public wants and expects FDA regulation of products to ensure the safety and quantity of our food, drugs and health care supplies. And, you seem to agree with this expectation. Since FDA's budget is pretty much personnel oriented, do you feel your budget request is sufficient to meet these expectations and needs?

ANSWER. Yes. While the budget request does not fully meet inflation in costs, and requires a further slight personnel reduction, the Agency is continuing to reexamine its priorities and to seek ways to improve its productivity. While many of FDA's activities have been reduced in size, the Agency will not permit the reductions to affect its basic ability to carry out its fundamental responsibilities under the law. For example, FDA is currently involved in two extensive recalls of foods, namely canned salmon and infant formula, and the Agency must maintain the flexibility of its field force to be sure that such urgent problems can be dealt with. At the same time, the Agency is engaged in a thorough review of its regulations on the investigation and approval processes for new drugs, with the goal of assuring that FDA can confirm the safety and efficacy of new products without imposing any undue requirements or delay. The fact that the Agency's activities are heavily personnel intensive makes it extremely difficult to scale down in a time of fiscal constraint, at the same time FDA must continue to keep abreast of changing technology and the flow of new products. The retrospective review of regulations, and the voluntary sodium labeling and reduction campaign, are two examples of efforts that can help to assure product safety and improve health without imposing unnecessary costs and regulation, and the budget as requested for 1983 will enable FDA to pursue this goal while carrying on the basic functions mandated by the law.

TERMINATION OF ANTIBIOTIC CERTIFICATION PROGRAM

QUESTION. Your budget proposes an increase of approximately $3.5 million to separate personnel in the Antibiotic Certification Program. How many positions will be terminated?

ANSWER. One hundred and ninety positions will be eliminated.

QUESTION. Will these people all be from this program or will they "bump" other people?

ANSWER. The Food and Drug Administration is requesting permission to use the usual Reduction in Force procedures. Therefore, it is expected that these people will "bump" others when possible.

QUESTION. What type of personnel will be terminated?

ANSWER. The type of personnel affected by the termination of this program include chemists, biologists, microbiologists, physical science technicians, laboratory workers, animal caretakers, and clerical support.

QUESTION. Will they be assisted in locating a position or job in other agencies or departments of government?

ANSWER. A major effort to place employees with the National Institutes of Health was initiated March 2. On this date a meeting was held between the personnel offices of NIH and FDA to establish procedures to receive the applications and give priority hiring consideration to the affected employees. On March 4 a meeting was held with the supervisory staff to inform them of this program.

Within the Bureau of Drugs priority consideration is being given to qualified employees for other Bureau of Drugs vacancies. When the supervisor receives an application from an employee rated highly qualified for the position, that supervisor can either select the employee or must justify in writing why the employee was not selected.

In addition to the above, counseling programs will be established to assist employees, and they will, of course, be given first consideration for any other openings throughout the agency for which they qualify.

BUILDINGS AND FACILITIES

QUESTION. You indicated no new appropriations are requested for buildings and facilities. Will you please provide for the record a complete status report of FDA's present facilities and also the status of your new headquarters lab.

ANSWER. While FDA occupies a variety of facilities nationwide, the Agency's facilities problems fall primarily into two categories --its older field laboratories and its headquarters laboratories which do not meet contemporary standards for valid scientific work. The following summary discusses first the Agency's field facilities and then its headquarters facilities, including plans for new headquarters laboratories at Beltsville, Maryland. It should be noted that although FDA owns a limited number of facilities where it is fully responsible for building maintenance, in most cases the Agency's facilities are controlled by GSA and either GSA or private building owners are responsible for basic maintenance. Thus, in most instances FDA is concerned with renovation and improvement to ensure employee safety, and to keep its laboratories up to date with current program needs and current laboratory methods.

Field Facilities

FDA currently occupies 20 field laboratory facilities. Only one of these, the specialized Winchester (Mass.) Engineering and Analytical Center, is owned by FDA and this facility is in relatively good condition. (The field organization also occupies two District Offices without laboratories and 128 Resident Posts, which present no unusual facility problems for the Agency.)

Of the 19 District and Regional laboratories, 10 were constructed to FDA specifications during a major building program from 1955 to 1964, and remain serviceable for the Agency's needs, although periodic renovation is required to meet new program requirements and to implement new laboratory methods. In one case, Boston, the current owner of the building has indicated that the lease will not be renewed past September, 1983. As a result, FDA is working with GSA to develop a prospectus for new space.

The largest field laboratory in Brooklyn was also renovated during this building program, and this laboratory and a small laboratory in

East Orange, New Jersey, are adequate for the Agency's needs. Only one field laboratory is of recent vintage, namely the New Orleans District Office which was completed in 1978.

The Agency's greatest problems have been with the other 6 field laboratories which are located in very old Federal buildings. In Philadelphia FDA has conducted a major renovation of its laboratories in the old Customs Building, and this program should be completed during 1983.

On January 5, 1982, DHHS signed a new lease with the Illinois Institute of Technology to provide laboratory space for FDA, so that the Agency can vacate its old lab space. FDA expects to occupy this facility in December, 1982.

To replace current lab facilities in Denver, a prospectus has been presented by GSA to Congress that would provide for renovation of Building 20 at the Denver Federal Center for replacement lab space for FDA.

In Seattle, FDA has pursued several options for providing suitable lab space. At the present time, GSA plans to acquire new space by lease, and a prospectus is being reviewed at OMB.

In San Francisco, the Federal building in which FDA labs are currently located has been placed on the Register of Historic Buildings, and it is likely the Agency will have to work with GSA to move to alternate facilities in the future.

Due to the closing of the PHS Clinic in San Juan, Puerto Rico, FDA has occupied that facility and plans to relocate its laboratories there in the near future.

Headquarters Facilities

FDA's largest single facility is the National Center for Toxicological Research (NCTR), which was built in the early 1950's for chemical weapons research, and was turned over to FDA when NCTR was established in 1972. A number of improvements have been made in the last ten years, and this facility is one of the best in use by FDA. (FDA maintains the facility with a staff which was transferred from the Department of the Army in 1979.)

The other headquarters laboratories outside the Washington area are the Foods Research Laboratories at Cincinnati, the National Center for Drug Analysis (NCDA) in St. Louis, and two small shellfish research stations at Dauphin Island, Ala., and Davisville, RI. The Foods Cincinnati labs are located in temporary-type steel buildings which are unsuitable as a long-term research facility. This facility and the NCDA are proposed for replacement by the new laboratories at Beltsville, as part of the planned consolidation of headquarters foods and drugs laboratories.

The two bureaus which became part of FDA in the early 1970's came to the Agency with suitable facilities--namely, the Bureau of Biologics buildings on the NIH campus, and the leased facilities of the Bureau of Radiological Health in Rockville.

The Agency's newest bureau, Medical Devices, has been occupying a small amount of lab space in the South Agriculture Building in

Washington. In order to provide suitable facilities, DHHS received direct leasing authority from GSA. The Department is currently accepting bids from potential lessors, and the Agency hopes that this process will provide new labs for device research in the near future.

FDA's most severe facilities problems have been with its Washington area laboratories of the Bureaus of Foods, Drugs, and Veterinary Medicine. FDA has had problems in providing suitable laboratory facilities for many years. In 1964, the Agency's Congressional Budget narrative justification read much as it has in recent years. In that year, despite the fact that FDA was about to acquire full occupancy of the recently constructed Federal Building 8, delays in the completion of that building, combined with greater than expected growth of the Agency, and flaws in design, made that building outmoded in some respects as soon as it was occupied.

In 1958, when Congress authorized construction of Federal Building 8, the building was envisioned as housing all of FDA's headquarters laboratory operations until at least the late 1960's. However, funds were not appropriated for construction until 1961 and by the time the building was completed in 1964 it was no longer sufficient for the Agency's needs.

In 1961, FDA acquired, through GSA, property at Beltsville that had formerly belonged to the Department of Agriculture. In 1962 Congress appropriated funds for construction of a Special Pharmacological Animal Laboratory (SPAL) on that property. (This facility is now the Foods Beltsville Research Facility.)

When it became evident that Federal Building 8, then under construction, would not be sufficient for the Agency's needs, a request was made in the 1964 budget for construction of a new laboratory on the Beltsville site adjoining SPAL. This request was approved a year later in 1965, and planning and design were begun for a facility to house the additional personnel the Agency had acquired since Federal Building 8 was designed. A master plan outlining the proposed construction of several laboratory buildings and the development of pasture land for large animals on the Beltsville property was prepared in 1966 and was approved by the National Capital Planning Commission.

The plans for the first of the new laboratories at Beltsville were completed in 1967, but funds for construction were not available that year and the construction was delayed. Meanwhile, the Agency had developed and submitted requests for a second new laboratory at the site. Funding to develop plans was approved in 1968, but a reorganization placed FDA into the Consumer Protection and Environmental Health Service. Under this new organizational structure, FDA's facilities requirements were not given a high priority. Consequently, the Agency was forced to house laboratory programs wherever it could find space. The transfer of several additional programs to FDA included several temporary facilities in the Cincinnati area. Also, as a result of reorganization of Departmental regions, a surplus district laboratory in St. Louis was converted into a headquarters drug laboratory.

The acquisition of facilities in an unplanned pattern continued in the 1970's. In 1971, the Agency acquired the Bureau of Radiological Health and its facilities in the Rockville area. In 1972, FDA acquired responsibility for regulation of biological products and vaccines, and inherited use of the facilities at NIH occupied by the new Bureau of Biologics.

Analytical chemistry techniques have changed dramatically over the past 15 or 20 years. Many items of equipment now in common use either did not exist 15 years ago or were just in the process of being developed. Items of equipment such as nuclear magnetic resonance spectrometers, electron spin resonance spectrometers, and other types of mass spectrometers are either totally new or have been greatly refined in the last 15 years. Much more analytical work is done today with these extremely sensitive scientific devices than by the conventional wet chemistry methods that were predominantly used 20 years ago. Although Federal Building 8 was designed a little more than 20 years ago and was first occupied by FDA in 1964, this facility does not provide proper environmental control for modern laboratory equipment. Many of the sensitive analytical instruments commonly used require closely controlled temperature and humidity and, in addition, use a substantial amount of electrical power. Some of these equipment items are also very heavy, having magnets weighing in excess of 2,000 pounds. When Federal Building 8 was designed, this equipment did not exist, and the building was not designed to accommodate such equipment.

The FDA facility at 501 First Street was originally a residence for nurses at Providence Hospital. Although the building was converted to laboratory use in 1956, the improvements were largely cosmetic, and this facility is totally inadequate as a laboratory facility. It has no central heating, ventilating or air conditioning. The floors were designed for residential occupancy and not for laboratory use, and utility systems are totally inadequate for today's needs. The same could be said of the Bureau of Veterinary Medicine (BVM) laboratory facilities in Beltsville. Only one of the buildings occupied by BVM was actually designed to be a laboratory. All of the other BVM facilities started out as animal holding or storage buildings and have been converted into makeshift laboratories in so far as possible within the limitations of the buildings.

None of FDA's Washington area facilities can meet all of the occupational safety and health, fire safety requirements, and operational requirements currently stipulated in various publications or regulations of the Occupational Safety and Health Administration, the National Fire Protection Association, the General Services Administration, American Association for Accrediation of Laboratory Animal Care, the Department, and our own Agency. Many of these relate directly to employee safety. For example, most laboratories are not equipped with sprinkler systems as required by the GSA Fire Safety Handbook. Two of our major lab facilities have recirculating air systems that prevent proper evacuation of chemical fumes. Most FDA fume hoods do not meet OSHA face-velocity standards. This is a complex problem that involves the fume hood ductwork system, blowers and motors, and the make-up air supplied by the entire heating, ventilating, and air conditioning system of a building. Most FDA labs are not designed to permit safe use of chemical laboratory carcinogens according to Department or OSHA guidelines. Many laboratories do not have adequate means of escape in the event of a chemical spill, fire, or explosion. Effective environmental control, particularly with respect to ventilation and temperature control, in labs and animal holding areas is totally inadequate in most FDA lab facilities. The air filtration is poor or nonexistent in many of our buildings, and the air distribution is poor in most buildings.

While some of these problems have a direct safety impact, others have a more general effect on basic employee productivity. Moreover, the limitations on environmental control, particularly filtration and ventilation, have the potential for jeopardizing our scientific work or preventing us from carrying out needed studies.

Animal holding facilities are poorly arranged in inadequate space in most buildings and do not meet current accreditation standards. The lack of separate entry and exit to animal areas, and the use of building materials not designed for effective sanitation, are counter to contemporary practices in terms of animal care, and can jeopardize the credibility of our studies as well.

An assessment of FDA headquarters facilities was completed by the Office of Administration, FDA, in November, 1976. This analysis found that most of FDA's existing headquarters laboratory facilities cannot meet commonly accepted laboratory standards because of inherent defects which cannot be corrected by modification. The study recommended replacement of the present facilities of the Bureau of Foods, the Bureau of Veterinary Medicine, and the laboratory components of the Bureau of Drugs by a new facility to be located on available FDA property at Beltsville, Maryland.

Among the general findings were:

- Most of the laboratories do not meet commonly-accepted standards for the conduct of research and testing.
- Many of the unacceptable characteristics of the facilities are inherent and cannot be corrected by modification or redesign.
- Those facilities not originally designed for laboratory use have the most serious deficiencies.
- The design and mechanical systems of most facilities restrict the effective use of high-technology equipment.
- The management officials of the Agency, as well as the staffs of several bureaus, are dispersed among a number of physically separated buildings.
- High-cost equipment is duplicated at many different locations.
- Specialized scientific personnel are scattered throughout the various facilities.
- Only one of the laboratories is large enough to allow many different scientific disciplines to interact within a single facility.
- Many geographically-dispersed laboratories are engaged in identical or closely-related analytical tasks.
- The smaller laboratories have proven to be suitable for a very limited range of activities.

The Agency's current plan revises and updates these recommendations. Funds for design of a headquarters complex were appropriated in 1979, and a contract was awarded on February 2, 1979 for revision and updating of the 1966 Master Plan. The revised plan was submitted to the National Capital Planning Commission on March 7, 1980, and was approved on May 29, 1980.

When eventually completed, the total complex that FDA proposes to construct will provide modern laboratory facilities which will accommodate the Bureau of Foods and Bureau of Veterinary Medicine in their entirety and the laboratory staff of the Bureau of Drugs. The facility will be located at Beltsville, Maryland, on a tract of land owned by FDA, comprising 244 acres, most of which is presently unimproved. The space requirements for various functions and program elements which will ultimately be housed at the Beltsville Complex have been divided into six (6) modules which provide greater flexibility in the development of replacement space for FDA Headquarters activities, and which will permit the most critically needed facilities to be designed and constructed first. The modules currently planned are:

MODULE # 1
Replacement of animal holding, support, and closely related laboratory facilities of the Bureau of Foods and the Bureau of Drugs, presently located at Federal Building 8. (100,000 net square feet)

MODULE #2
Replacement of Veterinary Medical animal facilities and research laboratories, presently located at the Beltsville Agricultural Research Center. (37,000 net square feet plus animal pasture land and holding buildings)

MODULE #3A
Replacement of all remaining laboratory activities of the Bureau of Drugs now at Federal Building 8 and 501 1st Street. (74,000 net square feet)

MODULE #3B
Replacement of all remaining laboratory activities of the Bureau of Foods now located at Federal Building 8. (145,000 net square feet)

MODULE #4
Office space for all remaining employees of the Bureau of Foods and the Bureau of Veterinary Medicine in the Washington area. (Federal Building 8 will be vacated at this stage) (150,000 net square feet)

MODULE #5
Replacement of existing laboratory facilities for the National Center for Drug Analysis, now at St. Louis, and for the Bureau of Foods temporary research laboratories at Cincinnati. (46,000 net square feet)

The Agency ranked its animal-based activities as the highest priority for replacement by Modules #1 and #2 because these animal studies provide the essential basis for determining the effects on humans of the substances tested, and because the current facilities are most deficient in meeting contemporary standards for animal care and for maintaining the integrity of each animal experiment.

The design of Module #1 is now scheduled to be completed in October, 1982, and the Agency hopes to begin construction by March, 1983. The Department is currently negotiating a contract for the design of Module #2, which should begin this Summer. Thus, the Agency should be prepared to begin construction of Module #2 whenever appropriations for that purpose are made.

FDA REGULATIONS

QUESTION. Will you please provide for the record a listing of regulations known at this time to be eliminated, revised or rewritten.

ANSWER. The Agency is still developing its timetables for the retrospective review of regulations, although some reviews are in fact underway. In July 1981, the public was asked via a FEDERAL REGISTER notice to comment on those FDA regulations that are the most burdensome. Each bureau within FDA then analyzed these comments, integrated them with existing information, and prepared a list of the top review priorities that was presented to the Commissioner. These are now being integrated into an agency-wide review priority list. FDA will soon publish a FEDERAL REGISTER notice that describes the agency's effort and announces the list of review priorities. We will provide the Committee with this document as soon as it is available.

These regulations will represent the agency's highest priority for review, and as such, are only a partial list of all regulations that will eventually be reviewed. In addition, the agency has some reviews already in progress. For example, we are reviewing the "umbrella" Foods Good Manufacturing Practice regulations, largely in response to the range of comments received on a revision which was proposed in 1979.

The Agency is also engaged in an extensive review of its regulations on Investigational New Drugs and New Drug Applications to be sure that FDA does not impose any unnecessary requirements or delays in the development of new drugs. FDA has always sought to revise and update its regulations when the need arises, and the current development of priorities will help assure that the Agency addresses those regulations which may be most in need of revision. Of course, the Agency cannot predict which regulations may eventually be rescinded or revised until the reviews are completed and proposals developed.

PERSONNEL REDUCTIONS

QUESTION. You indicated in your justifications that staffing levels in 1983 are similar to those estimated in 1982, but that significant personnel reductions occurred in 1981 and 1982. Please provide for the record a table showing these changes from fiscal year 1979 through 1982, and projections for fiscal year 1983.

ANSWER. The following figures represent the staffing over this period, for Salaries and Expenses:

1979	Full-time permanent (FTP) End-of-year employment	7,323
1980	Full-time permanent (FTP) End-of-year employment	7,191
1981	Actual Full-time permanent Full-time equivalent staffyears (FTP/FTEs)	6,939
1982	Estimated FTP/FTEs	6,673
1983	Estimated FTP/FTEs	6,634

It should be noted that, beginning with fiscal 1981, the Agency's employment ceilings were converted to limitations on full-time equivalent staffyears (FTEs), rather than end-of-year employment, as part of the government-wide conversion to this new method of employment controls. Thus, while the above figures for 1979 and 1980 are not directly comparable to the FTE figures for 1981 and later years, they do reflect the decline in FDA employment since 1979. Employment other than full-time permanent is also controlled under the new FTE system, by means of a total FTE ceiling on all types of employment. For 1981, the total actual FTEs were 7,558, compared to estimates of 7,159 for 1982 and 7,120 for 1983.

FDA INSPECTION

QUESTION. Past GAO reports about FDA regulation of imported foods show that significant amounts of imported food either escaped FDA inspection, or were marketed and consumed before they could be recalled and disposed of. In 1977, GAO's review of imports, including food, regulated by FDA found that only about 17 percent of the entries of the various FDA-regulated products imported during fiscal year 1975 were inspected. Eighty-three percent were not inspected. Ninety percent of the dollar value of all FDA-regulated imports was food products. FDA records showed that imported food products which were inspected had significant continuing problems of microbiological contamination and filth.

A 1979 GAO report indicated that imported food which contains illegal pesticide residues, usually were marketed and consumed before FDA lab tests had confirmed a residue violation. Half of the imported food that FDA found to be adulterated during the 15-month period ending September 30, 1977, was marketed without penalty to the importer/violator. It was found that security bonds posted by importers to ensure redelivery of foods to FDA for regulatory action were not effective enforcement tools. In the past FDA inspectors at U.S. ports of entry were handicapped in effectively and efficiently providing coverage of imported foods because: (1) inspectors were not aware of all violations detected at points of entry other than their own, and (2) FDA laboratories providing analysis of food samples for illegal adulterants were not providing results in time for regulatory action.

QUESTION. Does FDA now furnish its districts lists of all products found violative at all ports of entry?

ANSWER. Yes, the Agency has furnished Weekly Import Detention Lists to its districts since 1972. Through the Weekly Detention Lists, each district has timely information on current detentions made throughout the country, which is beneficial in planning coverage of articles offered for entry through their ports. In addition, the Bureau of Foods has just recently developed an Import Data Feedback System which should help each district in comparing its imported food surveillance activities with those in other districts.

QUESTION. How is import inspection coverage planned so that efficient use is made of your resources?

ANSWER. The districts plan their import coverage using a variety of factors to assure effective use of planned resources, to direct resources to those areas that are most important on the basis of hazard to the public, frequency of violation, etc. The following types of information are used:

- Compliance program analyses which highlight past problems in general program areas such as:
  - Food sanitation and microbiological contamination
  - Chemical contaminants including pesticide residues
  - Food additives
  - Food labeling and economics
- Import Alerts which identify current imported products, manufacturers/shippers/importers, etc., having compliance problems.
- Weekly Import Detention Lists which provide information on products, port of entry, country of origin, quantity and value, manufacturer/shippers, etc.

In addition, Automatic Detention of products with past violative histories (repeat violators), without physical sampling and analysis, frees personnel and resources to be used to cover other products.

QUESTION. How long does it take now for inspection personnel to receive the results of FDA lab tests?

ANSWER. The length of time to receive sample analysis results is dependent on a number of factors, such as the type of product, shipment time to get the sample to the laboratory, and the lab equipment and methods required.

If the sample is collected in close proximity to the district laboratory there is little time lost to ship the sample. However, if the sample is collected at a remote border entry point, the sample must then be properly packed and shipped to the nearest district laboratory for examination.

When a sample is collected for gross filth analysis (such as whole insects) the analytical time is very short, but when the sample is examined for microfilth (such as insect fragments), pesticide residues, or heavy metals, the analytical time is longer. When the sample is tested for aflatoxin or microbiological contamination (such as Salmonella) the method may take an extended period of time of up to 15 work days.

Finally, additional time may be required if the laboratory results must be evaluated by experts in headquarters to determine whether or not the lot is, in fact, actionable (can be detained), as in the case of pesticide residues where there is no established tolerance or regulatory action level to determine whether action should be taken.

QUESTION. How is FDA deterring repetitive violations by growers, shippers, or importers nationally?

ANSWER. FDA uses a number of enforcement tools to deter repetitive violations. In the area of pesticide residues, we can invoke "Certification Procedures" and/or "Automatic Detention" action. The "Certification Procedures" are implemented after finding only one violative entry from a specific grower/shipper. When this procedure is invoked, future shipments from the grower/shipper are not allowed entry unless they are accompanied by a certificate of analysis which indicates they are in compliance. Those shipments not accompanied by such certificates are automatically detained and subsequently refused entry if certificates are not received.

Automatic Detention of imported products on factors other than sample examination, such as the past violative history of specific merchandise, is another method of deterring repetitive violations. FDA can use a product's past violative history as a reason to refuse entry and not collect physical samples for examination. Therefore, we can use the resources saved by not collecting samples of those items to examine other products. When this action is invoked, the burden to prove that the specific shipment should not be refused admission is placed ~~on the~~ foreign government, the foreign shipper, or the importer.

The Agency also issues Weekly Detention Lists, Import Alerts, and other guidance information to our district import staffs which identify previous violative products and/or shippers so that products previously found violative can be sampled and detained.

QUESTION. How do you track repeat import violators?

ANSWER. The "Automatic Detention System" and the "Weekly Import Detention Lists" are the primary means of tracking repeat import violators at the national level. At the district level, however, local inspection personnel are constantly looking for repeat violations on the basis of their own knowledge and experience. Published Compliance Programs, Import Alerts, and other guidance material also help to identify repeat violators for the district import personnel.

QUESTION. What penalties are available to FDA as enforcement tools?

ANSWER. All sanctions authorized by the Federal Food, Drug, and Cosmetic Act for regulating products in interstate commerce, such as seizure, injunction, and prosecution, can be used against imported merchandise and importers of such goods. While FDA does not have authority to inspect foreign manufacturers and shippers, it has the basic authority to refuse entry to products at the point of entry.

Because an importer is often not aware of the adulterated condition of imported goods purchased, or has no knowledge of the condition or practices of the foreign manufacturer/shipper, FDA primarily uses the authority and sanctions of Section 801 of the Federal Food, Drug, and Cosmetic Act to regulate imported goods, through detention, reconditioning upon FDA approval and supervision, and refusal of admission if the article is not brought into compliance with the Act. In cases of repeated violations or where there is evidence that the violative products might not be held intact pending proper reconditioning or exportation, seizure action can be used to gain government custody of the violative imported merchandise. As discussed above, Certification Procedures and Automatic Detention are additional sanctions used as enforcement tools.

In addition, FDA uses U.S. Customs authority as a means of penalizing importers who fail to keep shipments intact pending a determination of their admissibility, and to assure that violative imported products will not become lost, strayed, or stolen, such as the payment of damages (forfeiture of the redelivery bond) when the goods are not redelivered, and the denial of Transportation and Exportation (T&E) Permits, which are often requested by the importers in order to move violative (refused) shipments from one port to another for export purposes.

QUESTION. How frequently have enforcement tools been employed?

ANSWER. FDA's primary authority to regulate imported products is Section 801 (Imports and Exports) of the Federal Food, Drug, and Cosmetic Act. The enforcement tools authorized by that section, such as detention, reconditioning, and refusal of admission, are used very frequently. In fiscal year 1981, for example, FDA detained 13,199 entries of violative merchandise, all of which were either brought into compliance by reconditioning or were refused admission.

Seizure action is also used in those cases where the agency believes it is necessary to gain custody over violative imported goods. In fiscal year 1980 seven seizure actions were taken against imported shrimp adulterated due to Salmonella, insect filth and decomposition. In the past, seizure has also been used on other food products such as frog legs, fish, etc.

The enforcement tool of Automatic Detention is presently being invoked against at least 23 different food products such as candy and confectionary containing alcohol; shrimp containing filth, Salmonella, and decomposition; Mahimahi containing histamines; mung beans containing Endrin; and puffer fish containing tetrodotoxin, a poisonous substance. In addition, this tool has been invoked against various drugs, medical devices, and other products subject to the Federal Food, Drug, and Cosmetic Act.

QUESTION. Has improvement been made over time?

ANSWER. FDA's import enforcement program has undergone significant improvement in all areas since 1971. Efficient use of resources, reducing time it takes to get lab results, deterring repetitive violations, tracking import violators, and use of a variety of enforcement tools have improved the coverage of imported products. The Agency will continue to seek ways to further improve its import surveillance, particularly in the areas of providing improved information to the district offices so that they know which products need to be closely watched, and in special efforts such as the Mex[illegible] ffice, which works with the Mexican Government t[illegible] with Mexican food products exported t[illegible]

[illegible] TAMINATION

[illegible] incident of polychlorinated biphenyl-con[illegible] the Western States, the Office of Technol[illegible] GAO recommended that, to improve the Federal resp[illegible] incidents, FDA, USDA, and the Environmental Protection Ag[illegible] to clearly define which agency would assume the leaders[illegible] future food contaminations. To date, no lead agency [illegible] designated. Is attention being paid to designating a lead [illegible] future food contamination incidents? Please explain.

ANSWER. [illegible] DA, and EPA have developed procedures for respon[illegible] nation incidents, which provide for working level [illegible] level contacts with the other agencies to ensure [illegible] rdination of effort needed. Which agency takes the lea[illegible] depends on the particular circumstances of the incident. This arrangement is necessary because of the distinct legal responsibilities as well as the expertise of the different agencies. FDA's umbrella emergency procedures outline in a general way the responsibilities of the various federal agencies which might be involved in different types of situations. These guidelines provide for prompt notification to other agencies so that they can begin their investigation as necessary, but is impossible to establish in advance specific instructions for every conceivable type of incident.

RESIDUE VIOLATIONS

QUESTION. Effective follow-up of firms repeatedly marketing unsafe or unwholesome food and food products requires good record-keeping and close coordination between USDA, FDA, and EPA, as well as State and local government agencies.

In 1979, the General Accounting Office concluded that because of overwhelming problems in identifying and removing from the market raw meat and poultry found to contain illegal residues, major efforts had to be directed to prevent future shipments of violative animals. Prior efforts had not been effective. Although FDA and EPA are required to determine the cause of and corrective actions needed for residue violations found by USDA, FDA generally did not do so. For example, GAO found that during the 4 year period ended December 1976, USDA reported 3,124 residue violations to FDA for follow-up. FDA district offices reported follow-up investigations on only 1,161 or 37 percent of the cases, because of several factors such as lack of adequate USDA data. Has FDA improved its record of follow-up investigations into instances of illegal residues of animal drugs, pesticides, or other contaminants reported to it by USDA?

ANSWER. Yes, the Agency has improved its record by making much more efficient use of its resources. FDA reduced the number of on-site inspections of initial observations of an overtolerance residue from a producer, such as a farmer or a feed lot. It is clear that the vast majority of violative residue reports forwarded to FDA by USDA involve a one-time error by a producer or are the result of a lack of kn[illegible] of the importance of observing label-recommended withdr[illegible] important that the Agency contact, by lett[illegible] identified violator, in order to learn the [illegible]nd to provide advice on preventing its recurr[illegible] require a response from the producer, explain[illegible]tion will be corrected. However, it would be extr[illegible] conduct an on-site investigation of each violativ[illegible]. We have responded to GAO recommendations by provid[illegible] better directions and guidelines from headquarters t[illegible] units regarding residue report follow-up. Our present Fi[illegible]liance Guide for this Program recommends on-site inspecti[illegible] repeat citations of a producer of particularly egregi[illegible] of those violations that could have resulted from [illegible] incident. Working under these guidelines, our fi[illegible]ntacted virtually all identified violators and hav[illegible] investigations of about 31 percent of the report[illegible] residues during the most recent eighteen months.

Thus, w[illegible] number of on-site inspections would appear to have [illegible] lower percentage represents an improvement since the 37 percent follow-up figure was based on haphazardly collected data, while the 31 percent figure reflects a more efficient use of inspection time.

QUESTION. Have effective enforcement actions resulted?

ANSWER. The Agency believes enforcement actions have been more effective since changes were made in the program in response to GAO recommendations. To date, one permanent injunction has been obtained against a dairyman who was found on numerous occasions to have sent cows culled from his herd to slaughter while they still contained illegal residues of drugs. Four other injunctions were proposed during 1981, two of which were held up pending further evidence development and two of which are proceeding. Headquarters and field units in the Agency are cooperating in a continuing process of identifying and building cases against repeat violators of the residue sections of the Act.

QUESTION. Do you believe that the situation with regard to adulterated raw meat and poultry has improved?

ANSWER. A number of improvements are apparent. For example, the successful injunctive action occurring in Burlington, Washington was widely publicized in the Northwest and caused reduction in violation rates there. Secondly, the USDA Swab Test On Premises, the STOP program, halved the number of culled dairy cows sent to slaughter with overtolerance residues. The cooperative efforts of FDA, USDA, and industry in conducting nationwide research, education, and enforcement programs resulted in a decrease in the violation rate for sulfonamide residues in swine from 15 percent in 1979 to less than 5 percent last year. Lastly, and most recently, USDA and FDA have been quite successful in preventing large numbers of young calves found to contain extremely high tissue levels of sulfonamide residues from entering the Nation's food supply and in determining the causes of the residues.

We are encouraged by the cooperative working relationships which have developed in recent years between the Federal agencies and industry to combat residue problems. As a result, some problems have been solved, and more adulterated meat is being detected early enough to prevent its marketing. Therefore, although the overall rates of violations for all drugs monitored by USDA have not changed significantly over the last three years, FDA believes the U.S. consumer is being better protected from residues of those drugs.

PESTICIDE REGULATION

QUESTION. In a report assessing pesticide regulation, "Stronger Enforcement Needed Against Misuse of Pesticides," (CED-82-5, October 15, 1981), GAO found FDA referrals to EPA of pesticide residue violations in food lacked coordination and management control. Neither agency maintained records of referrals, and neither followed up to determine the status of problem investigations. It was recommended that FDA improve management controls over and strengthen coordination with EPA to help assure that pesticide residue violations in food are investigated.

FDA responded it planned to more formally and systematically document its referrals to EPA of violative pesticide residues in food. It also planned to discuss with EPA the need for a better method of notifying FDA on the outcomes of pesticide misuse cases referred to EPA. Has FDA implemented its plan to more formally and systematically document referrals to EPA of violative pesticide residues in food? Have FDA and EPA devised a method for FDA to be notified of the outcome of the investigation?

ANSWER. On February 19, 1982, FDA issued to its field offices a Field Management Directive in response to the criticism of EPA and FDA recordkeeping on interagency referrals for pesticide misuse contained in the GAO report. Not only does this directive improve FDA management control over referrals and strengthen coordination with EPA, as recommended in the report, but it also provides FDA field offices with more specific guidance for determining when a pesticide case should be referred to EPA for possible enforcement action. Although GAO did not criticize FDA on this latter point, the agency felt that such guidance was useful in clarifying the provisions of the existing EPA/FDA Memorandum of Understanding. The system provided for in the directive also assures that each agency receives feedback on the results of an investigation on a referred case.

The FDA directive is the result of a coordinated effort by EPA and FDA to address the deficiencies in the previous referral system which were identified by GAO. It should be noted that EPA headquarters is issuing a virtually identical directive to their regional offices.

CORRECTIVE ACTION

QUESTION. Federal efforts to regulate food safety and wholesomeness, to be effective, must have good means of ensuring corrective action on identified problems by violative firms. To achieve effective corrective action, FDA should have a good followup system for problem firms, and should employ available enforcement actions to obtain compliance.

FDA enforces regulations covering toxic residues in domestically produced animals, cases concerning which are referred to it by USDA. In 1979, GAO found FDA generally issues information letters, the least severe regulatory alternative, to violative growers notifying them of the problem and requesting corrective action. Information letters are used in lieu of stronger regulatory alternatives such as regulatory letters, product seizures, grower injunction, or criminal prosecution of growers. Several factors, such as lack of USDA data to develop case histories on violative growers, make it difficult for FDA to take stronger action. In response to the report's recommendations for FDA to more effectively use regulatory alternatives and to establish followup guidelines, FDA reported it was studying ways to improve its enforcement procedures and was considering modifications to its guidelines for followup on residue violations. FDA's Residue Task Force was expected to submit its report early in 1979. What improvements have been made in FDA's enforcement procedures for agricultural growers who violate residue tolerances and/or action levels?

ANSWER. In response to the April 1979 GAO report, FDA agreed that its residue enforcement procedures were not as effective as they could be. In order to make needed changes, the animal-derived food safety program was broken out as a separate agency program to give it greater visibility and focus responsibility for improving performance. Better liaison was established with USDA, and between FDA headquarters and field units, resulting in more efficient followup of reported residue violations. Also, FDA headquarters is now able to track the status of a particular residue case as all pertinent information from USDA and FDA reports are collated in an FDA computer program. These more efficient systems for investigating and tracking violative residue cases are permitting quicker correction and recognition of residue problems, and therefore, improved enforcement.

The Agency does not believe, however, that enforcement activities should be the sole focus in improving the residue violation rate. For example, the program's full-time staff not only works on such items as identifying repeated violators of residue tolerances and pursuing cases for injunctive action against violators; but also works with USDA on developing special monitoring programs; identifies trends and causes of over tolerance residues; and develops educational materials on how to use animal drugs safely and effectively, for use by producers, farmers, and operators of feed mills, feed lots and animal auction markets.

QUESTION. Has FDA modified its guidelines for followup on residue violations?

ANSWER. FDA completely rewrote its Field Compliance Guide for the residue program during 1980 and 1981 in order to better coordinate field and headquarter efforts in this program area. The Guide now provides the field with information on those residues of greatest toxicologic concern and for which suitable analytical methods are available. It also describes the type of inspectional evidence needed to support regulatory actions in the residue area.

QUESTION. Has FDA been successful in pursuing stronger enforcement alternatives than information letters against repeat violators?

ANSWER. As explained in more detail above, on residue violations, the Agency has embarked on a plan to use injunctive action against repeat violators of the residue sections of the Act. Because of more efficient use of our field inspection time, this has been a successful program.

QUESTION. Has the current budget situation impacted on FDA's ability to perform followup inspections?

ANSWER. As mentioned above, the Agency has modified its field compliance programs to make them more efficient. Nevertheless, budget restrictions have forced the Agency to plan a 5 to 10 percent reduction in planned followup inspections for FY 1982. Still, our field offices have adequate resources to pursue the worst violators in bringing about corrective actions or to develop evidence to support regulatory actions.

QUESTION. What is FDA's current philosophy regarding the use of product seizures, grower injunction, or criminal prosecution of growers?

ANSWER. In most cases, animal-derived food products are under USDA's jurisdiction. In those cases where such products are adulterated and potentially subject to FDA authority, the Agency normally consults with appropriate USDA or State officials prior to seizing the product. Seizure is not usually a viable option, however, because, except for stored frozen products such as turkeys, the identity of processed meat is usually lost once it enters the marketplace. The Agency is actively seeking injunctions against growers who repeatedly cause animals that contain overtolerance residues to be introduced into the food supply. Criminal prosecution of growers will be considered against egregious violators of the Act.

QUESTION. Is the current trend to rely more on voluntary actions by the growers instead of official regulatory actions?

ANSWER. Experience has shown that educational programs which encourage voluntary actions are effective in reducing illegal residues in animal-derived food. In general, when producers, feed mill operators, and owners of slaughter houses are made aware of a problem with residues, they act quickly to correct it. For this reason, FDA is cooperating with USDA on residue avoidance programs in addition to, rather than instead of, its traditional regulatory actions.

QUESTION. If so, how will FDA ensure voluntary corrective action by violative growers?

ANSWER. USDA plans to maintain oversight monitoring programs in plants that are cooperating in voluntary preventative and corrective actions. FDA will, when warranted, take regulatory action against growers who continue to introduce illegal residues into animal-derived food.

TOXIC RESIDUES

QUESTION. Federal agency efforts to detect and control toxic residues of animal drugs, pesticides, or environmental contaminants in foods are severely hampered by the limited methods available for residue testing. Existing methods are time-consuming. For many substances, adequate testing methods still need to be developed. In GAO's report, "Problems in Preventing the Marketing of Raw Meat and Poultry Containing Potentially Harmful Residues," (HRD-79-10, April 17, 1979), it was found that analysis of samples for residues takes too long for effective USDA regulatory action. While raw meat and poultry are usually not held at the slaughterhouse for more than 48 hours, USDA officials estimated that it takes 6 to 25 days to complete a residue analysis. The contaminated product will usually have been marketed and consumed before USDA confirms a violation. GAO recommended that the Secretary of HHS direct the FDA to require animal drug manufacturers to develop residue detection methods which can be completed within 24 hours after slaughter, on premises. HHS disagreed.

HHS said that the highly sophisticated methodology required to support regulatory action was difficult to develop and, in many instances, could not be adequately developed without significant breakthroughs in technology. However, according to HHS, FDA was working toward this goal. HHS said that one function of FDA's Residue Task Force was to review available methodology and recommend changes and priorities when appropriate.

In a subsequent report (CED-81-19, Dec. 31, 1980), GAO pointed out that detection methods that could support legal action against a violative grower had been available for only 3 of the 25 animal drugs included in USDA's monitoring program between 1974 and 1976. GAO added that:

(a) the Federal Food, Drug, and Cosmetic Act requires animal drug manufacturers to develop practicable detection methods adequate to support regulatory action as a condition of FDA's approval to market the drug.

(b) FDA regulations state that a method is practicable only if it is adequate for regulatory purposes; and

(c) although the technological state of the art may prevent some animal drug manufacturers from developing such methods, the Federal Food, Drug, and Cosmetic Act does not exempt those manufacturers from the Act's requirement.

Accordingly, FDA should (1) promptly require animal drug manufacturers to develop detection methods suitable for regulatory action and (2) withdraw approval to market those drugs for which adequate methods cannot be developed within an established period.
Has FDA set target dates for developing new methods of quickly and accurately detecting illegal residues in raw meat and poultry? Has FDA placed the burden of developing new methods on the manufacturers of animal drugs? Has consideration been given to withdrawing an animal drug's approval if an adequate residue detection method will not be developed within a specified period?

ANSWER. The Agency has strict requirements, that have been enforced without exception, for regulatory methods of analysis of drugs submitted for approval since the early 1970's.

However, requiring sponsors of earlier-approved drugs to develop methods that meet current standards, under the threat of withdrawing their approval, is practical only in exceptional cases. For example, the lack of a regulatory method was an important factor in the Agency's decision to withdraw approval of DES as well as in our present, on-going effort to withdraw approval of nitrofuran-containing animal drugs. Both of these actions took many years--1968 to 1980 for DES--and both were, and are, extremely costly in terms of Agency resources. For these reasons, withdrawal of a drug's approval is not an action that the Agency could undertake easily, nor is it a threat we should make unless we are prepared to back it up.

As an alternative to requiring sponsors of approved drugs to develop regulatory methods of analysis, USDA and FDA have successful method development programs in which those assays for which there is the greatest need are being developed. In this effort, USDA has concentrated on developing multi-residue screening procedures necessary for efficient monitoring programs and FDA has pursued the development of reliable, specific methods needed to support regulatory actions. The two agencies--and sometimes industry laboratories--cooperate in validating methods developed by one of them. Occasionally, both agencies cooperate in the developmental stages of an assay as well. An example of the latter is the recent successful development of a method of detection for residues of chloramphenicol, a toxic antibiotic approved for use in dogs and horses and suspected of being widely misused in food-producing animals.

FDA ENFORCEMENT

QUESTION. It has been reported that there was a decrease in the number of enforcement actions taken by the Food and Drug Administration during 1981. In fact, it has been alleged that the 1981 statistics on enforcement actions indicate that the Administration is on its way to bringing back adulterated foods and unsafe or unproven drugs and medical devices as a result of its promise to get the Government off the backs of industry. Would you please comment on the Food and Drug Administration's enforcement actions in 1981 as compared to such actions in prior years.

ANSWER. On January 28, 1982, the Health Research Group (HRG) charged that the administration is purposely restricting FDA enforcement actions as part of its regulatory reform initiatives. The HRG further charged that the end result of such restriction will be the return of adulterated foods and unsafe or unproven drugs and medical devices. The basis for the charges was a comparison of the number of enforcement actions in 1981: 577, as compared to an average of 1,041 each year from 1977 to 1980.

There can be wide variations between the number of enforcement actions from year to year, and a number of factors can influence any one year's data. Factors that affect data in the long term include technological changes in the regulated industries, new legislation, new administrative or judicial enforcement sanctions, societal changes, and the corrective effects of FDA regulatory programs. Short-term changes are influenced by such factors as shifts in FDA program priorities, changes in budgeted resources, unplanned emergencies either industry-wide or by individual firm, and changes in enforcement strategies.

Examples of the long-range factors, such as the 1976 Device Amendments, are relatively easy to identify. On the other hand, recognition of the short-term factors most often requires an intimate knowledge of the day-to-day activities of the agency. Examples of these factors are an industry-wide inspectional and recall program (canned mushrooms in 1974/canned salmon in 1982), natural or industrial disaster (Three Mile Island), unplanned enforcement program (DES growth promotant in cattle), or changes among individual compliance program activities (large-scale sampling and analysis of marketed drugs vs. inspection of clinical investigators' research activities).

The figures quoted by the HRG in their charge are basically correct. Four primary factors affected the 1981 data: normal fluctuations, voluntary compliance initiatives, increased inspectional coverage, and new personnel programs.

Regarding seizures, FDA figures show 276 for fiscal year 1981; 541 and 539 for fiscal years 1979 and 1980 respectively. Inquiry into the enforcement activities, however, reveals that in fiscal year 1979, the agency seized 135 separate X-ray machines, in place, as part of a campaign to assure the correction of defective parts under court supervision when the responsible firm went bankrupt. In 1980, there were 120 seizures of new drugs marketed by two generic drug manufacturers that failed to obtain approved new drug applications prior to marketing. No such seizure campaigns were undertaken in 1981. Therefore, one might argue that the figures could be 276 for 1981, 419 for 1980, and 419 for 1979. These totals are not as dramatically different, and a review of 10 years' historical data shows a high of 1,216 seizures in 1973 and a low of 276 in 1981.

An analysis of the injunction data for the past three years shows 30 in fiscal year 1979, 21 in fiscal year 1980, and 12 in fiscal year 1981. However, as part of a conscious decision to increase the efficiency of the agency's enforcement activities, the FDA accepted many more voluntary commitments to cease shipment and operations than normal, in lieu of formal civil injunctive actions, which are more costly to the government. Thirty-three such voluntary commitments were accepted in 1981 and, when added to the formal injunctions, provide a total of 45. Although such voluntary actions were accepted in 1979 and 1980, the numbers were significantly below those of 1981. The 10-year review shows a high of 41 formal injunctions in 1977 and lows of 13 in 1974 and 12 in 1981.

A similar analysis of prosecution data shows totals of 18 in 1981, 24 in 1980, and 19 in 1979. The 10-year data show a high of 118 in 1973 and a low of 18 in 1981. The 18 prosecutions processed in 1981 included four very difficult grand jury recommendations.

Finally, for further demonstration that a single investigation can influence numbers, the agency issued 492 regulatory letters of one type in 1980 and only 26 in 1981. Of the 492, however, well over 400 were issued as part of the agency's investigation of DES in cattle and were issued to involved cattle breeders, cattle feeders, veterinarians, and distributors. No such industry-wide violative conditions were encountered in 1981.

Historically, the agency has accepted commitments to voluntary corrective actions when it is reasonable to believe that the commitment is made in good faith. Beginning in August, 1980, the agency purposely looked for ways to extend its enforcement resources by expanding the number of times when voluntary commitments could be accepted by the agency. Such voluntary actions are almost always less resource-intensive for the government but do not routinely appear in the enforcement action data. As part of this effort, there were 460 occasions in 1981 when products that otherwise might have been seized were voluntarily destroyed. It is estimated that this represented over $5 million worth of products.

A second purposeful initiative of the agency in 1981 was that of increasing the number of routine inspections conducted by the agency. Using tested and accepted techniques such as directed inspections, focusing on key indicators, the agency increased the number of plants inspected from 26,504 in 1980 to 30,463 in 1981, an increase of nearly 4,000 plants. Such initiatives to increase the efficiency of our regulatory offices are continuing in 1982.

Informal discussions with middle management, first-line supervisors, and operating personnel reveal an additional factor. The implementation of the civil service reform legislation passed into law during the last administration and the budget reform objectives and initiatives of this administration, both of which employ bipartisan support, have had some slowing effect on the routine procedures of the agency. Such impacts are usually transitory and clearly do not automatically herald a change in the agency's regulatory posture. To the extent this factor continues to exist, it has not interfered with the agency's ability to cope effectively with the two major recall actions now underway, canned salmon and infant formula.

In an ideal world, of course, where all firms were complying with FDA requirements, there would be no enforcement actions at all. Indeed, there are many who believe that the inspection itself is FDA's greatest enforcement tool--the fact that a firm expects to be inspected by FDA may induce greater compliance with the law than the possibility of legal actions.

Clearly, the yearly total of enforcement actions alone is not a reliable indicator of enforcement policy. Any number of factors can influence such data; and without an analysis of the years' enforcement activities, the data are relatively meaningless. Reflecting on the enforcement activities of the past year, the agency finds no basis for the allegations made by the HRG.

DELANEY CLAUSE

QUESTION. The Administration has been criticized for doing little to modify the effect of the Delaney Clause. If it is enforced as written, the Delaney Clause could lead to the banning of many foods. What is the Food and Drugs Administration's position on this?

ANSWER. Although the Delaney Clause could lead to the banning of some foods and of some food packaging materials, it has not, in the past, been used as a basis for the banning of many foods, and it is questionable whether it would be directly responsible for banning many foods in the future, even if not changed.

Nevertheless, because of the concerns that have been expressed about the continued value of the Delaney Clause as written, FDA has been evaluating legislative options for changing it. In particular, the Food and Drug Administration and the Department of Health and Human Services, in conjunction with the Department of Agriculture, have been evaluating the proposals introduced by Senator Hatch and others in the 97th Congress for changing various provisions in the laws governing food safety, including the Delaney Clause; and more recently, FDA has been looking at the bill introduced by Congressman Gore that would also change several provisions of the Federal Food, Drug, and Cosmetic Act, including the Delaney Clause. Other possible legislative alternatives are also being evaluated.

FDA agrees that the Delaney Clause should be publicly discussed and should be carefully considered as part of any attempt to revise food safety law. It should be emphasized, however, that the definition of safety and other important issues should also be considered as part of any proposed changes in food safety law. It is hoped that formal proposals on food safety legislation can be completed in the near future.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

SODIUM LABELING

QUESTION. Sodium in food has an impact on taste, safety, and the functional characteristics of food. What substitutes do you envision for sodium in food as levels decrease?

ANSWER. The use of non-sodium-containing ingredients in place of currently used sodium-containing ingredients as a means of lowering the sodium content of foods is limited by the availability of suitable alternatives, the costs of testing and reformulation of products, as well as possible effects on the sensory and physical properties of foods. Many processed foods are governed by standards of identity that provide for the optional use of both sodium-containing and non-sodium-containing ingredients that perform the same technical function in a food. For example, the standards of identity for process cheese products provide for the optional use of sodium or calcium propionate, sodium or potassium sorbate and sorbic acid as antimicrobial agents in the food; sodium, calcium, or potassium salts of citric acid as emulsifiers; and sodium alginate, various non-sodium-containing vegetable gums, and propylene glycol alginate as stabilizers. In such cases, selection of alternative non-sodium-containing ingredients should be relatively simple.

However, where large amounts of salt are used as a processing aid, as in lowering the moisture content of cheese curd or controlling the fermentation rate in the production of sauerkraut and pickles, and in retarding the growth of undesirable microorganisms, identifying alternative non-sodium-containing ingredients will not be easy. We anticipate that further research will be needed to determine if there are possible alternatives to accomplish these desired effects, which, at the same time, do not adversely affect the foods. The use of the salt substitute, potassium chloride, at high levels has been reported to result in bitter and metallic flavors.

In other food products where table salt is added primarily for sensory purposes, it is possible to reduce the salt level and to compensate for its reduction by the addition of flavor enhancers such as monopotassium glutamate or yeast autolysates, or by the addition of sugar, appropriate spices or other such ingredients.

QUESTION. A number of years ago, efforts were made to increase iodine consumption because there appeared to be a deficiency in the diets of many people. Now I am told that some people are incurring physical problems as a result of their body's inability to cope with excessive amounts of iodine. What research has been done on the substances you mention as substitutes for sodium to determine that we will not cause medical problems as a result of increased consumption of these substitutes?

ANSWER. All Generally Regarded as Safe (GRAS) ingredients and food additives currently used for manufacturing have been reviewed for safety. There will be continuous reviews of the safety of these products as new uses are instituted, particularly if the use of certain substances were to increase substantially. Any new food additives, would, of course, receive very careful review, since in that case it is the manufacturers' responsibility to provide data to assure that new additives are safe. As noted above, because of the different uses of salt and other sodium compounds, there could be a variety of substitutes involved, and this could reduce the likelihood that any one substitute would cause problems.

QUESTION. What would be the public health effects if potassium, for example, were substituted for sodium across the board by the food industry?

ANSWER. The impact of substituting potassium for all needed sodium in the food supply would result in an imbalance of sodium to potassium, which is critical for health. However, such a complete substitution is not possible. Research has demonstrated that potassium is not a suitable substitute for sodium in taste. Potassium compounds are only one group of substitutes for sodium compounds, depending on the functional purpose and the type of food involved. Research has also shown that a moderate increase in potassium relative to sodium could have a very positive effect.

QUESTION. If the food industry were to substitute potassium, or any other substance, for sodium in every compound added to food, and public health questions were to arise, would you propose mandatory potassium labeling?

ANSWER. The Agency believes that the probability is very low that the food industry would substitute potassium for sodium to the extent that public health questions were to arise. Industry has spent millions of dollars trying to use more potassium compounds, and it has not been possible to accomplish such a broad substitution. However, the Agency intends to encourage voluntary potassium labeling. Should health concerns arise over potassium in the future, we would have to consider the scientific information available and the extent of labeing at that time before considering any new labeling proposals.

QUESTION. There is considerable concern about your food labeling policies. The joint FDA, FTC, USDA food labeling initiative undertaken in 1978 urged major changes, but the issue of greatest concern to consumers in FDA's own survey, the complexity of chemical terms used in ingredient statements, were not even addressed. Furthermore, only 8 percent of the consumer respondents claimed there was any problem with food labeling. GAO subsequently criticized FDA for proposing to proceed with any food labeling changes. GAO recommended that an adequate study should be undertaken to determine exactly what changes were justified. That was during the Carter Administration.

Now we have the Reagan Administration which advocates voluntary action. By your own calculations we have had good progress to date on voluntary sodium labeling. But here comes the Calendar of Federal Regulations in which you propose to impose mandatory sodium labeling on products which have voluntary nutrition labeling. You propose these regulations a year before your own assessment is to be complete, and months before you have evaluated perhaps as much as $30,000,000 worth of research on sodium in food undertaken by the government. Tell me, Commissioner, what do you intend to require next, fat labeling, sugar labeling?

ANSWER. At this time, no decision has been made relative to fat or sugar labeling. With the primary exception of sodium, the Agency is still reviewing the need for other potential labeling changes that were discussed in the tentative positions published in 1979.

QUESTION. In your testimony of September 25, 1981 before the House Health and Environment Subcommittee, you said with respect to lowering sodium, "This part of our program will take the longest time to fulfull. It requires a major change by the food industry... It is not something that will happen overnight." Aren't you going to be burdening the food industry if you require mandatory sodium labeling before reformulation is complete? You even said it cannot happen overnight.

ANSWER. In the case of sodium labeling, as with any labeling regulation, the effective date of any final regulation would be established so as to give the industry sufficient time to make the necessary formulation changes and label redesign. In fact, FDA's review of the labeling proposal will include not only the extent of voluntary sodium labeling, but also the information that industry provides on their progress in identifying possible reformulations of products. This and other information provided in response to the labeling proposal will be considered in developing any final rule and also in setting effective dates.

QUESTION. In that testimony which I cited earlier, you said that you expected that the "voluntary efforts on the part of industry... will...dramatically increase the amount of sodium information over the next several years. As a consequence, I do not believe that mandatory sodium labeling legislation is warranted at this time." If it is going to take several years for the voluntary efforts which you support, why do you insist on mandatory sodium labeling for 40 percent of food which is nutrition labelled at this time?

ANSWER. The Agency believes that sodium is such an important component of food that it should be considered for inclusion when a manufacturer chooses to provide nutrition information. However, FDA hopes that a large percentage of foods will be sodium labeled voluntarily, and the extent of sodium information available to the consumer will be carefully considered before a decision is reached. In addition, the Agency believes that the publication of a proposal will provide for full consideration of comments and data which may be submitted by industry, consumers, the health professions, or others, before determining whether sodium content should be required when a food bears a nutrition label.

QUESTION. You have stated that 60 percent of foods which are nutrition labelled are voluntarily nutrition labelled. You have also said that the voluntary nutrition labeling program is evidence that voluntary programs work. Why then the need for mandatory sodium labeling in the voluntary nutrition labeling program. Don't you have any faith in the food industry?

ANSWER. At the present time, the Agency is convinced that a large proportion of the food processing industry is sincerely interested in providing sodium information to consumers. One of the main purposes of FDA's nutrition labeling regulations is to assure consistency in those cases where nutritional claims are made or nutrition information is provided voluntarily, and this is one of the issues which will be addressed in considering whether sodium must be included in nutrition labels.

SUBCOMMITEE RECESS

Senator **Cochran**. I want to announce that the next hearing of this subcommittee will be held on March 17 at 9:30 a.m. in room 1318 of the Dirksen Senate Office Building. We will be looking at the budget requests of the Agricultural Stabilization and Conservation Service, the Soil Conservation Service, and the Federal Crop Insurance Corporation. Until then, the committee stands in recess.

[Whereupon, at 11:20 a.m., Friday, March 12, the subcommittee was recessed, to reconvene at the call of the Chair.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR [illegible]

[illegible]

STATEMENTS OF:

RICH[illegible] DEPUTY SECRETARY OF AGRICULTURE

SE[illegible] UNDER SECRETARY, INTERNATIONAL AFFAIRS AND [illegible] PROGRAMS

EVERETT [illegible], ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

ACCOMPANIED BY ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

[illegible]DUCTION OF WITNESSES

Sen[illegible]

We w[illegible] today with two [illegible] the jurisdiction [illegible] Agriculture: the Agricultural Stabilization [illegible] Service, the Commodity Credit Corporation [illegible] Service, and the Federal Crop Insurance Co[illegible]

W[illegible] for the Agricultural Stabilization [illegible] the Commodity Credit Corpo[illegible]

ACTIVITIES OF AGENCIES

The ASCS administers the Department's farm price support programs and coordinates certain cost-sharing programs which serve as incentives to farmers and other landowners to practice sound conservation management. The Agricultural Stabilization and Conservation Service depends heavily on its important network of county committees and offices to provide administrative, advisory, and financial support to its programs.

The Commodity Credit Corporation is a wholly owned Government [illegible] support programs for agricultural [illegible] mission of stabilizing and pro- [illegible] helping to maintain balanced [illegible] commodities, the Commodity [illegible] short-term and intermedi- [illegible] additional authority to enter [illegible]ments.

[illegible] and expenses needed for [illegible] Agricultural Stabilization and [illegible] Credit Corporation, on the [illegible] losses incurred in past [illegible] the Commodity Credit Corporation [illegible] Treasury.

CORRESPONDENCE AND SUBMITTED QUESTIONS

Two weeks ago, in a letter to Agriculture Secretary John Block, I raised a number of questions relating to the status of the Commodity Credit Corporation's involvement in domestic price and income support programs, as well as export credit activities. At this time I would like to make this letter and the Department's responses to my questions a part of the record.

[The letter and responses follow:]

LETTER FROM HON. THAD COCHRAN

U.S. SENATOR FROM MISSISSIPPI

The Honorable John R. Block
Secretary
U. S. Department of Agriculture
Washington, D. C. 20250

Dear Mr. Secretary:

I am writing to request information concerning the relationship of the Commodity Credit Corporation's export lending activities and assets to the problems of overdue payments to the U. S. Government and private banks by certain countries, particularly Poland and Romania.

During the recent Senate floor debate on the $5 billion emergency supplemental for CCC, I was confronted as manager of that bill with several questions and allegations with regard to the Polish debt. Most recently, the Romanian debt issue has raised new questions concerning the use and direction of CCC funds.

I am concerned that the current perceptions of CCC's export lending activities with regard to a few select countries not do irreparable damage to the important mission of CCC in promoting the export of U. S. agricultural commodities and carrying out the Nation's income and price support programs.

With appropriations hearings scheduled over the next several weeks, and in light of the current economic plight of the American farmer, I am especially interested in getting to the bottom of the CCC foreign debt payment issue.

To assist the Appropriations Committee in understanding CCC's involvement and exposure in these various loan arrangements, I would appreciate responses to the following requests for information by March 12, 1982:

1. Detail the legal authority under which CCC executes its export credit responsibilities.

2. Explain all CCC export lending obligations under law, contract, or other arrangements that expose the U. S. Government to financial liability to other nations, or banks lending to other nations.

3. Provide a detailed listing, country by country, of all direct and guaranteed loans currently on CCC's books. Include amounts loaned, repayment schedules, arrearages, dates issued, and third parties (e.g., banks) where appropriate.

4. Explain the general collection and repayment practices under the direct and the guaranteed loan programs.

5. With respect to guaranteed loans, explain CCC's role when a foreign nation is in arrears to the lending bank. What triggers CCC's payment as guarantor? Include reference to appropriate regulations, especially with regard to a declaration or determination of default.

6. Explain the process within the Administration by which decisions are made with regard to CCC payments for overdue loans. How are other departments and agencies involved in that decision making?

7. Provide a breakdown of all CCC outlays for export credit and domestic price support programs for fiscal year 1981 and fiscal year 1982 to date.

8. Provide a schedule of any anticipated CCC payments to be made to banks holding loans to foreign countries. Include any anticipated CCC losses on direct loans under the export credit program.

9. How do payments made by CCC to banks holding foreign loans relate to the $5 billion emergency supplemental recently enacted by the Congress to reimburse the CCC for net realized losses?

10. In your budget request for fiscal year 1983, what, if any, funds requested will be used to make guaranteed loan payments to private lending institutions or reimbursements for direct loans.

11. Explain any direct or guaranteed loan activity planned for fiscal years 1982 and 1983.

Thank you for your assistance in providing the Committee this information.

Sincerely,

/s/

THAD COCHRAN, Chairman
Subcommittee on Agriculture,
Rural Development, and
Related Agencies

LETTER FROM RICHARD E. LYNG

DEPUTY SECRETARY, DEPARTMENT OF AGRICULTURE

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

8 MAR 1982

Honorable Thad Cochran
Chairman, Subcommittee on Agriculture,
  Rural Development and Related Agencies
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Enclosed are the answers to the questions you posed in your letter of February 25 regarding the export programs of the Commodity Credit Corporation (CCC). Also enclosed is a set of questions and answers on the same subject that were prepared for Senator Helms.

For some of the questions, the answers are related to a specific date. The questions cannot be answered with any finality because the status of outstanding loans and loan guarantees changes almost daily.

We will be glad to elaborate on our responses, should the Committee feel that further information would be helpful.

Sincerely,

Richard E. Lyng

Richard E. Lyng
Deputy Secretary

Enclosure

QUESTIONS AND ANSWERS

1. Detail the legal authority under which the Commodity Credit Corporation (CCC) executes its export credit responsibilities.

CCC is authorized to conduct export credit operations under a number of different statutes. The broadest and most basic of these is section 5(f) of the Commodity Credit Corporation Charter Act (15 U.S.C. 714c(f)). Section 5 of that Act provides that CCC, "[i]n the fulfullment of its purposes and in carrying out its annual budget programs submitted to and approved by the Congress," may use its general powers, among other things, to "(f)[e]xport or cause to be exported, or aid in the development of foreign markets for, agricultural commodities."

CCC uses the authority of section 5(f) to conduct its GSM-5 Export Credit Sales Program (7 CFR 1488), GSM-101 Noncommercial Risk Assurance Program (7 CFR 1487), and GSM-102 Export Credit Guarantee Program (7 CFR 1493). The GSM-5 program provides direct credit to U.S. exporters for commercial export sales of CCC or private stocks of agricultural commodities. CCC is not presently extending any new credit under the GSM-5 program. Under both the GSM-101 and GSM-102 programs, CCC guarantees U.S. exporters or their assignees against risks involved in export credit sales.

CCC is also authorized to conduct export credit operations under section 4 of the Food for Peace Act of 1966, as amended (7 U.S.C. 1707a). CCC is authorized to conduct its GSM-5 export credit sales program for commercial export sales out of private stocks of agricultural commodities under section 4(a) of that act as well as under section 5 of the Charter Act. CCC relies on section 4(b) of the Food for Peace Act of 1966, as amended, for authority to conduct its GSM-201 Intermediate Credit Export Sales Program for Breeding Animals (7 CFR 1499) and its GSM-301 Intermediate Credit Export Sales Program for Foreign Market Development Facilities (7 CFR 1492).

Under Title I of P.L. 480 (7 U.S.C. 1701 et seq.), CCC is authorized to finance the sale and exportation of agricultural commodities to friendly countries on dollar credit terms up to 20 years, and on convertible local currency credit terms up to 40 years.

Finally, under section 201 of the Agricultural Trade Act of 1978 (7 U.S.C. 1707b), CCC is authorized to provide financing to exporters for deferred payment export sales. CCC is not currently conducting any operations under this authority.

Some of these programs are explained in more detail in the response to question 2 below.

Question 2. Explain all CCC export lending obligations under law, contract, or other arrangements that expose the U.S. Government to financial liability to other nations, or banks lending to other nations.

Answer. Export Credit Guarantee Program (GSM-102). This program provides protection to U.S. exporters of financial institutions in the United States against nonpayments by foreign banks due to commercial or noncommercial risks without distinction when purchases of U.S. agricultural commodities are financed on credit terms of not more than three years.

Noncommercial Risk Assurance Program (GSM-101). This program provides protection to U.S. exporters or financial institutions in the United States against nonpayment by foreign banks due only to noncommercial risks when purchases of U.S. agricultural commodities are financed on credit terms of not more than three years.

CCC Export Credit Sales Program (GSM-5). This program provides direct financing of U.S. agricultural commodity exports for periods up to three years.

CCC Intermediate Credit Export Sales Program for Breeding Animals (GSM-201). This program provides direct financing by CCC for the exports of breeding animals on payment terms from over three years to ten years.

CCC Intermediate Credit Export Sales Program for Foreign Market Development Facilities (GSM-301). This program authorizes CCC to enter into project agreements with U.S. or foreign private entities, or with foreign governments, under which CCC may finance the sale and export of U.S. agricultural commodities for periods in excess of three years but not more than ten years. Projects financed, including unloading, storage, processing or other market development facilities, must increase the potential for the importing country to purchase U.S. agricultural exports.

P.L. 480, Title I/III. Under this program, CCC finances the sale and exportation of U.S. agricultural commodities to friendly countries on concessional credit terms (low rates of interest for periods up to 40 years). Under Title I, the country repays CCC in dollars; under Title III, funds from the sale of the commodities in the importing country may be applied against the country's repayment obligation to the United States if the funds are used for specified agricultural self-help programs.

Question 3. Provide a detailed listing, country by country, of all direct and guaranteed loans currently on CCC's books. Include amounts loaned, repayment schedules, arrearages, dates issued, and third parties (e.g., banks) where appropriate.

PRINCIPAL DUE AS OF DECEMBER 31, 1981 a/

Country	Export Credit b/	Export Guarantees
	(In Thousands)	
Brazil	$ 37,732	$ 213,343
Costa Rica		2,867
Cyprus	1,417	
Dominican Republic	12,877	72,398
El Salvador		13,823
Greece	36,391	
Honduras		1,001
Hungary	2,553	
Indonesia	729	
Ireland	1	
Israel - Intermediate	17,510	
Jamaica		17,436

Country	Export Credit b/	Export Guarantees
Korea	69,869	520,161
Morocco		53,395
Pakistan		22,498
Peru	77,305	150,532
Regular	(45,998)	
Reschedule	(31,307)	
Poland	540,171	840,355
Regular	(322,860)	
Reschedule	(217,311)	
Portugal	31,148	143,760
Romania	41,524	48,981
Sri Lanka		6,299
Spain - Intermediate	661	
Sudan		39,296
Thailand	6,454	32,496
Yugoslavia	2,378	18,885
Zaire - Reschedule	13,696	
Total	$ 912,416	$2,197,526

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a/ Export guarantees represent December 31, 1981, balance plus January 1982 deliveries, but not reduced for January payments.

b/ Export credit consists of three segments -

Regular = Up to 3 year credits
Rescheduled = Regular credits which have been rescheduled
Intermediate = More than 3 years but not more than 10 years

Attachment 1 - U.S. banks issuing letters of credit under regular program for Eastern European countries.

Attachment 2 - U.S. banks, within countries, holding assignments under Export Guarantees.

Attachment 3 - Schedule of amounts due under the Regular Export Credit Program by fiscal years.

Attachment 4 - Schedule of amounts due under Rescheduled Regular Export Credits by fiscal years.

Attachment 5 - Schedule of amounts due under the Intermediate Export Credit Program by fiscal years.

Attachment 6 - Schedule of amounts due under Export Guarantees by fiscal years.

Attachment 1

U.S. Banks Issuing Letters of Credit Under Regular Program for Eastern European Countries

(In Thousands)

Country/U.S. Bank	Principal
Hungary	
Citibank NA	$ 2,553
Poland	
Bank of America	$ 100,999
Bank of America - International of Chicago	2,292
Bankers Trust Company	16,573
The Chase Manhattan Bank NA	56,019
Chemical Bank	16,768
Citibank NA	109,959
Commerce Union Bank	433
European American Banking Corporation	15,130
First National Bank of Chicago	12,855
First Wisconsin Nat'l Bank of Milwaukee	13,424
Girard International Bank	46,660
Irving Trust Company	8,753
Marine Midland Bank	4,257
Manufacturers Hanover Trust Company	18,533
Morgan Guaranty Trust Company of N.Y.	14,789
National City Bank	299
Philadelphia International Bank	3,784
Philadelphia National Bank	3,728
Republic National Bank	41,383
Security Pacific International Bank	12,932
Total Poland a/	$ 499,570
Romania	
Bank of America	$ 590
Bankers Trust Company	3,241
European American Banking Corporation	2,593
First Chicago International Banking Corp.	10,331
First National Bank of Chicago	1,110
French American Banking Corporation	5,071
Irving Trust Company	2,777
Manufacturers Hanover Trust Company	15,811
Total Romania	$ 41,524
Yugoslavia	
Morgan Guaranty Trust Company of N.Y.	$ 2,378

Attachment 2

U.S. BANKS, WITHIN COUNTRIES, HOLDING ASSIGNMENTS UNDER EXPORT GUARANTEES

Country/U.S. Bank	Principal (In Thousands)
Poland	
Bank of America	$ 260,835
Bank of Boston International	8,983
Chemical Bank	19,497
European American Banking Corp.	41,832
1st Chicago International, Los Angeles	75,779
1st National Bank of Chicago	162,612
Girard Trust Bank	104,401
Irving Trust Company	29,942
Marine Midland Bank	85,304
Morgan Guaranty Trust Co.	5,753
Riggs National Bank	10,802
Amount Not Assigned	34,615
Total Poland	$ 840,355
Romania	
Manufacturers Hanover Trust Co.	$ 48,981
Yugoslavia	
Bank of America	$ 18,885

Note: These are the only countries under this program where the information given is readily available.

Attachment 3

SCHEDULE OF AMOUNTS DUE UNDER THE REGULAR EXPORT CREDIT PROGRAM BY FISCAL YEAR

(In Thousands)

Country	Balance Outstanding 12/31/81	Fiscal Year 1982		Fiscal Year 1983		Arrearages a/	
		Principal	Interest	Principal	Interest	Principal	Interest
Brazil	$ 37,732	$ 26,756	$ 4,440	$ 10,976	$ 1,311	$	$
Cyprus	1,417	1,417	163				
Dominican Republic	12,877	9,651	1,319	3,226	447		
Greece	36,391	27,022	4,751	9,369	1,459		
Hungary	2,553	2,553	287				
Indonesia	729	729	84				
Ireland	1	1					
Korea	69,869	53,245	6,790	16,624	2,544		
Peru	45,998	32,694	6,203	13,304	2,162	5	1
Poland	322,860	257,448	37,986	65,412	10,286		
Portugal	51,148	35,725	4,139	15,423	2,354		
Romania	41,524	33,190	4,099	8,334	1,289		
Thailand	6,454	5,893	693	561	89		
Yugoslavia	2,378	2,378	245			2,378	245
Totals	$ 631,931	$ 488,702	$ 71,199	$ 143,229	$ 21,941	$ 2,383	$ 246

a/ All of the arrearage in Yugoslavia and approximately one-half of the arrearage in Peru has been paid subsequent to December 31, 1981.

Attachment 4

SCHEDULE OF AMOUNTS DUE UNDER RESCHEDULED REGULAR EXPORT CREDITS BY FISCAL YEARS

(In Thousands)

	Peru		Poland		Zaire	
	Principal	Interest	Principal	Interest	Principal	Interest
Balance Outstanding, 12/31/81	$ 31,307		$ 217,311		$ 13,696	
Fiscal Year 1982	$ 6,261	$ 2,677	$	$ 26,975	$ 3,236	$ 684
1983	6,261	2,113		27,164	2,206	925
1984	6,261	1,550		27,164	2,018	722
1985	6,261	986		27,164	1,494	529
1986	6,263	423	54,328	25,466	1,494	380
1987			54,328	18,675	928	264
1988			54,328	11,884	928	183
1989			54,327	5,093	928	102
1990					464	20
Totals	$ 31,307	$ 7,749	$ 217,311	$169,585	$ 13,696	$ 3,809
Arrearages					$ 876	$ 52

Attachment 5

SCHEDULE OF AMOUNTS DUE UNDER THE INTERMEDIATE EXPORT CREDIT PROGRAM BY FISCAL YEAR

(In Thousands)

	GSM - 201		GSM - 301	
	Spain		Israel	
	Principal	Interest	Principal	Interest
Balance Outstanding, 12/31/81	$ 661		$ 17,510	
Fiscal Year 1982	$ 192	$ 105	$	$ 1,858
1983	192	74		2,298
1984	192	44	1,772	2,246
1985	85	13	2,189	1,994
1986			2,189	1,706
1987			2,189	1,419
1988			2,189	1,132
1989			2,189	844
1990			2,189	557
1991			2,188	270
1992			416	28
Totals	$ 661	$ 236	$ 17,510	$ 14,352

Attachment 6

SCHEDULE OF AMOUNTS DUE UNDER EXPORT GUARANTEES BY FISCAL YEAR

(In Thousands)

Country	Balance Outstanding 12/31/81	Fiscal Year 1982		Fiscal Year 1983		Fiscal Year 1984		Fiscal Year 1985	
		Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Brazil	$ 213,343	$ 164,642	$ 14,149	$ 32,770	$ 3,302	$ 14,638	$ 1,226	$ 1,293	$ 52
Costa Rica	2,867	956	229	956	153	955	77		
Dominican Republic	72,398	25,178	3,587	30,456	2,783	15,769	935	995	40
El Salvador	13,823	12,348	646	1,475	30				
Honduras	1,001	501	40	500	40				
Jamaica	17,436	5,516	1,222	5,866	844	5,866	376	188	8
Korea	520,161	334,253	27,613	126,964	12,200	57,786	3,877	1,158	46
Morocco	53,395	16,742	2,905	17,798	2,890	17,798	1,470	1,057	43
Pakistan	22,498	14,931	1,046	7,567	304				
Peru	150,532	51,868	7,405	58,318	6,600	40,346	2,594		
Poland	840,355	266,928	38,858	344,200	26,941	222,356	9,110	6,871	208
Portugal	143,760	46,442	10,183	47,920	7,695	47,920	3,872	1,478	60
Romania	48,981	8,511	2,680	16,327	2,926	16,327	1,623	7,816	313
Sri Lanka	6,299	4,220	440	1,040	166	1,039	84		
Sudan	39,296	19,658	2,942	9,860	1,567	9,778	784		
Thailand	32,496	13,347	1,496	11,291	1,385	7,858	627		
Yugoslavia	18,885	2,019	686	9,443	790	7,423	224		
Totals	$ 2,197,526	$ 988,060	$ 116,127	$ 722,751	$ 70,616	$ 465,859	$ 26,879	$ 20,856	$ 770

4. Explain [illegible] collection and repayment practices under the direct and guaranteed loan programs.

Under the Export Credit Sales Program (GSM-5) Commodity Credit Corporation (CCC) purchases the exporter's account receivable. In support of the receivable CCC requires a letter of credit issued by a United States bank or a letter of credit issued by a foreign bank which is confirmed in whole or in part by a United States bank. Prior to the due dates of payments under the letter of credit, CCC will send drafts to the United States bank with instructions to deposit the funds to CCC's account through a Federal Reserve Bank. The United States bank is obligated to make payment to CCC on the due dates of all amounts under letters of credit which it issued on foreign bank letters of credit which it confirmed. After payment to CCC of confirmed amounts, the bank may request refund from CCC of the amount paid if it certifies to CCC that it is unable to recover funds from the foreign bank due to a non-commercial risk. If CCC finds that inability to recover funds was due to non-commercial risk, CCC will make the refund.

Under the Non-Commercial Risk Assurance Program (GSM-101) and the Export Credit Guarantee Program (GSM-102) repayment is in accordance with the terms of a foreign bank letter of credit issued in favor of the exporter pursuant to an export credit sale requiring payment in United States dollars. The payment guarantee issued by CCC, for a period not exceeding 3 years, protects the exporter or the exporter's assignee (most exporters assign their receivable to a bank) against losses due to failure to receive payment from the foreign bank. In the event that the foreign bank fails to make payment, CCC will make payment to the exporter or the exporter's assignee (see question number 5).

5. With respect to guaranteed loans, explain CCC's role when a foreign nation is in arrears to the lending bank. What triggers CCC's payment as guarantor? Include reference to appropriate regulations, especially with regard to a declaration or determination of default.

Under the Non-Commercial Risk Assurance Program (GSM-101) if the foreign bank fails to make payment and it appears that the nonpayment is attributable to the occurrence of a non-commercial risk the exporter or the assignee is to promptly notify CCC of the failure to receive payment. Within 30 days after notification to CCC, a written claim for loss is to be filed supported by documentation specified in the regulations (7 CFR 1487.8). CCC then makes a determination as to whether the failure to receive payment was occasioned by the occurrence of non-commercial risk. If CCC determines that it is liable to the exporter or his assignee the exporter or assignee will submit a subrogation instrument to CCC and CCC will then make payment of the loss (7 CFR 1487.9). If the exporter or assignee subsequently receives payment from the foreign bank, importer or any other source, a refund is made to CCC (7 CFR 1487.10).

Under the Export Credit Guarantee Program (GSM-102) if the foreign bank fails to make payment, the exporter or the exporter's assignee is to notify CCC if payment is not received within 10 days of the due date, or any extension thereof by CCC. Within 30 days after the notice to CCC, or any extension thereof by CCC, a claim for loss is to be filed supported by documentation specified in the regulations (7 CFR 1493.8). CCC will then determine whether a loss has occurred for which it is liable under the guarantee. If CCC determines that it is liable to the exporter or his assignee payment is made (7 CFR 1493.9). If the exporter or assignee subsequently receives payment from the importer, foreign bank or any other source, a refund is made to CCC (7 CFR 1493.10).

Under the above programs, CCC does not make a declaration or determination of default. CCC makes a determination as to whether it is liable to the exporter or his assignee based upon a claim for loss filed by the exporter or his assignee.

6. Explain the process within the Administration by which decisions are made with regard to CCC payments for overdue loans. How are other departments and agencies involved in that decision making?

Once a claim is made, CCC has no option, but it must pay claim provided proper documentation is provided. No other department or agency is involved.

Question 7. Provide a breakdown of all CCC outlays for export credit and domestic price support programs for fiscal year 1981 and fiscal year 1982 to date.

Major Programs	Outlays In Thousands Fiscal Year 1981	 Fiscal Year 1982 1/
Export Credit Sales	$ 11,509	$ 6,657
Export Credit Guarantees	61,018	97,594
Commodity Loans	5,623,236	4,683,756
Storage Facility Loans	225,865	75,784
Commodity Purchases	2,503,277	331,334
Producer Payments	1,029,989	602,116
Total	$ 9,454,894	$ 5,797,241

1/ Represents outlays through December 31, 1981

8. Provide a schedule of any anticipated CCC payments to be made to banks holding loans to foreign countries. Include any anticipated CCC losses on direct loans under the export credit program.

At this time the only anticipated payment to be made to banks holding loans to foreign countries under the Non-Commerical Risk Assurance Program and the Export Credit Sales Program is $9.1 million to one bank on loans to Sudan. Payments are made only after filing, by the exporter or assignee, of a claim for loss or, in the case of Poland, acceptance of CCC's offer to repurchase its outstanding obligations under the assurance agreements and payment guarantees. Through March 3, 1982, only one bank has accepted CCC's offer on Poland and payment of $153,882.45 was made to the bank on February 18, 1982. There are no anticipated losses to CCC on direct loans under the Export Credit Sales Program.

9. How do payments made by CCC to banks holding foreign loans relate to the $5 billion emergency supplemental recently enacted by the Congress to reimburse the CCC for net realized losses?

The $5 billion supplemental appropriation to Commodity Credit Corporation (CCC) restored previously unreimbursed realized losses of the Corporation resulting primarily from programs operated during crop years 1980 and 1981. These losses result primarily from costs associated with CCC price support inventories, disaster and deficiency payments to producers, emergency feed payment programs, and the expenses incurred in maintaining storage for the grain reserve.

No realized losses have been incurred by CCC with respect to the making or guaranteeing of export credit to any country involved in these programs at this time. The only realized loss that has been recorded by CCC on the direct or guaranteed credit programs was a loss of less than $1 million on the Export Credit Sales Program which resulted from the closing of Intra Bank, Beirut, Lebanon in 1966. At present all of the amounts due to CCC under the Export Credit Sales Program and amounts paid by CCC to exporters or assignees under the Non-Commercial Risk Assurance Program and the Export Credit Guarantee Program, because of failure to receive payments from foreign banks, are maintained in the Corporation's records as accounts receivable. There are no current losses from this debt.

10. In your budget request for fiscal year 1983, what, if any, funds requested will be used to make guaranteed loan payments to private lending institutions or reimbursements for direct loans.

The fiscal year 1983 budget request for Commodity Credit Corporation contains no request for funds to make guaranteed loan payments or reimbursements for direct loans. The 1983 budget request is for amounts sufficient to reimburse the Corporation for its net realized losses sustained in prior years but not previously reimbursed.

Question 11. Explain any direct or guaranteed loan activity planned for fiscal years 1982 and 1983.

Answer. For these two fiscal years activity is planned in the Export Credit Guarantee Program (GSM-102). The authorization ceiling for both years is $2.5 billion. This is increase over the fiscal year 1981 authorization level of $2.3 billion, almost all of which was authorized and which resulted in shipments of $1.8 billion of agricultural commodities.

EXPORT CREDIT ACTIVITIES

Senator **Cochran**. The export credit activities of the Commodity Credit Corporation have come under attack over the last several months because of loans and loan guarantees outstanding to Poland and Romania.

During recent Senate consideration of the $5 billion emergency supplemental for the Corporation, efforts were made on the floor of the Senate to apply restrictions because of the Polish debt situation. At that time, a number of questions were raised about the Commodity Credit Corporation's loan policy.

I believe that the Commodity Credit Corporation is too important to our domestic and foreign agricultural activities supporting agriculture to have serious questions go unanswered.

I am very pleased to welcome to the subcommittee Deputy Secretary of Agriculture Richard Lyng, who will update us on the recent activities and plans of the Commodity Credit Corporation. After Secretary Lyng completes his statement and we have an opportunity to discuss his presentation to the committee, we will then hear from others in the Agricultural Stabilization and Conservation Service, including Seeley Lodwick, Under Secretary of Agriculture for International Affairs and Commodity Programs, and also Everett Rank, who is the Administrator of the Agricultural Stabilization and Conservation Service. They are accompanied, as I see, by Bob Sherman, the Deputy Budget Officer of the Department of Agriculture.

PREPARED STATEMENTS AND BIOGRAPHICAL SKETCHES

We have statements and biographical sketches that you have submitted to the committee. We appreciate that very much. We will make them a part of the record at this point.

[The statements and biographical sketches follow:]

PREPARED STATEMENT OF SEELEY G. LODWICK
UNDER SECRETARY
INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

Mr. Chairman, Members of the Committee, thank you for this opportunity to discuss with you the FY 1983 budget for the four agencies reporting to the Under Secretary for International Affairs and Commodity Programs. They are the Foreign Agricultural Service (FAS), including the General Sales Manager's office; the Office of International Cooperation and Development (OICD); the Federal Crop Insurance Corporation (FCIC); and the Agricultural Stabilization and Conservation Service (ASCS). The Under Secretary serves as ex officio President of the Commodity Credit Corporation (CCC).

May I introduce the Deputy Under Secretary, Thomas A. Hammer. Mr. Hammer was a pilot in the U.S. Navy. He has worked as an agricultural consultant for several agricultural businesses and as national affairs director specializing in foreign trade matters for the American Farm Bureau Federation in Washington.

Also with me today is Everett Rank, the Administrator of ASCS. Mr. Rank served in the U.S. Navy during World War II, and he is a lifelong farmer. He has been active in numerous agricultural businesses and organizations. He spent more than 15 years as an official in various capacities within ASCS.

The Administrators of the other three agencies will appear before you later in the month.

Administration Economic Policy

Over the last few years, the national economy has weathered difficult and severe economic storms. The foul weather has not changed to fair yet, but it appears that the storm is breaking up. Fundamental economic recovery will follow from such policies as those contained in the FY 1983 budget. We must recognize, however, that our current economic problems started several years ago, that recovery will take time, and that the adjustment process will be slow and sometimes painful.

Like the rest of the economy, the farm sector has been under stress in the past several months. Agricultural producers have been hurt by high inflation rates, high interest rates and the slow increase in consumer incomes, both at home and abroad. We are expecting the situation to improve. The apparent slowdown in inflation will help to moderate increases in farm production costs and the expected recovery in consumer incomes will help spur demand for agricultural products.

The budget proposals in the International Affairs and Commodity Programs area are intended to build upon the Agriculture and Food Act of 1981 and other authorities to make a strong, market-oriented and profitable agricultural sector -- a top priority of this Administration. These budget proposals fall within the economic parameters of this Administration so that the overall economic goals of this Administration can be achieved.

Agricultural Export Development

Long-term, sustainable export growth is one of the highest priorities of this Administration. Agricultural export earnings are a source of growth and prosperity, and they bolster the U.S. economy. They diminish the balance of payments deficit. They account for more than one of every five dollars in farm income and they create jobs.

The Secretary is spearheading the effort to create and maintain agricultural export markets. In the past year, I have worked to assist and supplement this effort. I have traveled outside the United States on a number of occasions to work toward our goal of export expansion. When the embargo on agricultural shipments to the Soviet Union was lifted last year, Secretary Block designated me to head the U.S. side in the consultation that led to a resumption of Soviet grain purchases from the United States. I was also involved in subsequent negotiations and consultations with the Soviets.

I also had the opportunity to accompany the Secretary to China and other East Asian countries last year -- also to lead U.S. teams in consultations with Japan and Indonesia and to join Secretary Block and Secretary Baldridge in a U.S. trade and investment mission to Africa last month.

In addition to market promotion and development, USDA, and especially FAS, directs resources to gain and maintain access to foreign markets. Export subsidies used by the European Community to gain an unfair competitive advantage over U.S. producers threaten U.S. exports. Japan continues to maintain many restrictions against U.S. agricultural products. There are also other markets where trade barriers are interfering with U.S. agricultural exports. The Secretary of Agriculture, along with the U.S. Trade Representative and the Secretaries of State and Commerce, is negotiating solutions to these difficult and long-standing problems.

OICD's program is being coordinated with the market development and trade initiatives of FAS. OICD has taken the lead in implementing the Cancun agreements. By consolidating and coordinating activities, our efforts in the international arena will be most effective.

Domestic Developments

There have been numerous developments on the domestic front this year. Because of the bumper 1981 crops, the farmer-owned reserve was opened for immediate entry. The farmer-owned reserve works. Farmers have placed over 1.3 billion bushels in the reserve this crop year, and reserve holdings total over 1.7 billion bushels. The reserve provides a safety net to farmers by allowing them an alternative to selling grain when prices are low. Then, as foreign and domestic marketing opportunities develop, they can sell advantageously.

Partially because of heavy reserve use, there is an unprecedented demand for commodity loans which stretched the financial resources of CCC to the limit. The Committee is to be commended for its prompt action in providing for the reimbursement of funds to CCC so that CCC could continue to make dairy purchases, carry out overseas food commitments, distribute deficiency payments, and make reserve and regular loans.

During the past year, new farm legislation was developed. The Secretary recently announced that he would use the authorities of the Agriculture and Food Act of 1981 to implement acreage reductions for the 1982 crops. The Secretary also increased both the regular and reserve loan levels and opened the reserve for immediate entry of the 1982 crops. Although the market is the best governor of supplies and prices, some protection must be provided to producers when they are subjected to extreme stress.

Through participating in the announced acreage reduction programs, producers can reduce their price risk by being eligible for CCC non-recourse loans, the reserve program and deficiency payments. Crop insurance will reduce their production risk. Together, these programs provide farmers with strong risk management tools. The crop insurance program has been restructured so as to allow producers to manage disaster coverage for the major field crops. By making crop insurance available for essentially all crops eligible for disaster payments in all counties, reliance on the Federal Government can be reduced.

FY 1983 Budget Request

The Administrators will provide the details of the budget requests for their respective agencies, but I would like to make a few general comments.

The Foreign Agricultural Service plays the key role in agricultural export expansion efforts. For FY 1983, the Department is requesting an increase in funds for FAS to provide for real growth in foreign market development and to cover the inflationary cost increases of other overseas programs. The budget proposal was developed by working with private cooperator groups to identify country/commodity combinations which have significant potential for export growth. The additional efforts will be focused in these areas. The benefit/cost ratio of the focused approach is highly positive; a dollar spent, whether it be a producer's or the government's, will return much more in terms of enhanced sales and prices. In addition, the development of exports in the areas with the greatest potential can lower government program costs, increase Federal tax revenues, and generate increased economic activity and jobs.

The FAS budget request for FY 1983 is $79.2 million, $11.5 million above the level appropriated for FY 1982.

Both P.L. 480 and the All-Risk Credit Guarantee Program are an integral part of our export expansion efforts. We are proposing to continue both programs at about the level we had in FY 1982.

The Office of International Cooperation and Development is the lead agency in the Department for international agricultural development. A large part of OICD's activity deals with scientific cooperation and technical exchange agreements, which generally result from commitments made at the highest levels of U.S. Government. For FY 1983, the proposed budget will allow most OICD programs to continue at about the same level as in FY 1982. However, the budget also requests funding for the Foreign Currency Research program which was not funded through appropriation during FY 1982. The research gained from this program provides substantial benefits for U.S. agriculture.

The Federal Crop Insurance Corporation has the major responsibility for implementing the Federal Crop Insurance Act of 1980. For FY 1983, the aggressive expansion of the crop insurance program requires a significant increase in funds for administrative and operating expenses, premium subsidies, and payments to cooperating private insurers. Insurance coverage on the 1981 crop was about $3 billion; the 1982 crop is anticipated to double to about $6 billion. The budget request will primarily support sales and servicing for the 1983 crop, coverage of which is estimated at $11 billion. We hope to insure about twice as many acres, and to increase the producer participation rate. It is imperative that FCIC receive adequate funding to place the crop insurance program on a sound financial footing.

The Agricultural Stabilization and Conservation Service encourages conservation of vital resources through cost-sharing programs. We are proposing to combine four cost-share programs into one Agricultural Conservation Program (ACP).

By combining the appropriation for the four current conservation programs, ASCS believes that it can obtain maximum conservation benefits for each taxpayer dollar spent. State and county ASC committees will be authorized to determine the practices that best achieve the conservation benefits needed in their local areas.

Mr. Chairman, thanks to the interest and funding from this Committee, this last year has been one of progress. However, all the goals have not yet been achieved. Men and women operating the farms and ranches of the U.S. deserve the opportunity to earn greater incomes. With the President's economic program, with your continued interest, and with this budget, additional progress can be made. We look forward to this next year, as together we create a more favorable economic climate for U.S. farmers.

PREPARED STATEMENT OF EVERETT RANK
ADMINISTRATOR
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

Mr. Chairman and Members of the Subcommittee, I appreciate this opportunity to present the proposed fiscal year 1983 Budget for the Agricultural Stabilization and Conservation Service.

Agricultural Conservation Program

We are asking the Congress for one appropriation to be used for carrying out conservation practices under our four major conservation programs. This will allow us flexibility in spending for each program. Under this new approach, we believe we can obtain increased conservation benefits from each tax dollar we spend.

All conservation practices currently available under the Agricultural Conservation Program, Emergency Conservation Program, Forestry Incentives Program, and Water Bank Program will continue to be available.

Under the single conservation appropriation, ASC state and county committees will determine the practices that best achieve the conservation benefits needed in their areas. Our state and county committees are best able to assess local conservation problems and establish priorities in solving them. By allowing these committees maximum flexibility to decide how conservation funds will be spent, we will encourage better matching of cost-share funds to local conservation problems.

At the national level we will establish for each state a single allocation. It will be based upon current formulas for forestry incentives and wetlands protection. The formula for allocating the portion for soil and water conservation will be based on the National Resource Inventory and our evaluation data. It will recognize the massive changes in farming and ranching that have taken place in the past few years.

County committees will receive a single allocation from the state committee, along with a list of practices available for cost-sharing, based on recommendations from the county development groups. This list will include soil and water conservation and pollution abatement practices for all states, plus water bank practices for those states and counties traditionally in the Water Bank Program, and forestry incentives practices for states and counties traditionally in the Forestry Incentives Program.

We are seeking maximum input from state and county committees in establishing this list of practices, which may be supplemented to include "special" conservation practices the committees recommend to solve high priority conservation problems. The committees will have complete flexibility to identify conservation problems, assign priorities to applications for assistance, and target funds to the most critical needs. They will also have authority to enter into long-term agreements.

The new conservation concept will operate under existing legislative authorities. Cost-share rates will be maintained at current levels, up to 75 percent, except in counties participating in an experimental variable cost-share project. This project will be offered to encourage increased program efficiency by allowing counties to vary conservation cost-share levels according to expected benefits of practices. Committees will be encouraged to use cost/benefit information from the ACP evaluation and from technical assistance agencies to make their funding decisions.

Although Washington will turn the decisionmaking over to the state and county committees, we will provide basic guidelines and will review the progress of their conservation efforts. The monitoring will serve a two-fold purpose: (1) It will enable us to feed back to the counties an assessment of their conservation activities with suggestions for improvement; and (2) it will permit us at the national level to make comparative analyses, which we can use to direct the funds to those areas with the greatest need and the greatest promise of benefits.

I want to stress that we are in no way eliminating any of the merits of the Agricultural Conservation, Emergency Conservation, Forestry Incentives or Water Bank Programs. As I pointed out earlier, all of the conservation practices now available under these programs will continue to be available under the single conservation appropriation. We propose to reserve $6 million for emergency practices to cover disaster-related activities. A consolidated cost-share program offers us an opportunity to reduce paperwork and simplify regulations. One appropriation means less paperwork for all levels of Government, and simplified regulations will make it easier for participating farmers.

While fully recognizing and acknowledging the need for a continued strong and vigorous Agricultural Conservation Program, we also acknowledge the demands of many other deserving programs and the need for constraint in the Federal Budget. Therefore, with the level of funding we are requesting in fiscal year 1983, the consolidated conservation program will best enable our agency to accomplish our goal of more conservation per dollar.

Commodity Credit Corporation

Mr. Chairman, you are well aware of the CCC Budget reestimates completed a few weeks ago. In view of those, I wish to reemphasize that to ensure uninterrupted program operations, it is essential that the permanent borrowing authority of the Corporation be increased by $5 billion up to the $25 billion statutory limit.

The National Wool Act is also administered through CCC, and the Budget reestimates reflect an estimate for outlays of $62.7 million in fiscal year 1983, compared to the estimate for fiscal year 1982 of $51.4 million. This increase from 1982 is primarily the result of lower estimated market prices for shorn wool and higher support prices for mohair. The Corporation's costs in financing this program are recovered through a permanent appropriation.

The 1983 CCC Budget reflects proposed changes in appropriation language to provide permanent authorization of reimbursement for losses. This appropriation covers activities that already have been accomplished--expenditures that already have been made--with prior approval of the Congress. Therefore, a permanent, indefinite appropriation would be most suitable.

Administrative Support

The ASCS Salaries and Expenses account is used to fund administrative support for ASCS and CCC programs. The 1983 Budget includes a request of $376.9 million for this consolidated account--$62.1 million in direct appropriation, and $314.8 million in funds transferred from CCC.

Included in our request is $13.3 million for full funding in 1983 of the pay raise effective in fiscal year 1982.

Our fiscal year 1983 request represents an increase of less than 2 percent over the amount appropriated for this account in fiscal year 1982.

Mr. Chairman, this concludes my prepared statement. I will be glad to respond to any questions you may have.

BIOGRAPHICAL SKETCHES

SEELEY LODWICK

Seeley G. Lodwick, former Iowa farmer, agricultural consultant and legislator, who has extensive experience in managing government farm programs, was sworn in April 10, 1981, by Secretary of Agriculture John R. Block to serve as Under Secretary for International Affairs and Commodity Programs.

Lodwick was nominated for the position February 4 and confirmed by the U.S. Senate April 8.

Lodwick will head up the U.S. Department of Agriculture programs relating to farm exports, which are estimated to reach a record $47 billion in 1981, with a favorable balance of agricultural trade of $29 billion. Lodwick will also supervise government farm programs through the Agricultural Stabilization and Conservation Service, and will direct Federal Crop Insurance Corporation programs. He will also head up the work done by the Office of International Cooperation and Development.

From 1979 to the time of his appointment he served as Iowa administrator for U.S. Senator Roger W. Jepsen (R-Iowa), while managing a family-owned corn and soybean farm in southeast Iowa. During the presidential campaign in 1980, Lodwick directed the farm and food division for the Reagan-Bush Committee.

From 1973 to 1976, Lodwick was director of government relations for the American Farm Bureau Federation. He then served as Associate Administrator of the Agricultural Stabilization and Conservation Service.

Prior to coming to Washington, Lodwick was an Iowa state senator, a farmer, and a farm manager.

Lodwick earned a degree in agricultural economics from Iowa State University in 1942, and then served with the First Marine Division during World War II.

He was born in Evanston, Ill., October 19, 1920, and is married to Helen (Pat) Barbre. They have three daughters.

Lodwick is a member of the Food and Agriculture Committee of the U.S. Chamber of Commerce, Commodity Club of Washington, D.C., American Society of Farm Managers and Rural Appraisers, American Agricultural Economics Association, National Economics Club, Soil Conservation Society of America, the Iowa Farm Bureau Federation and the American Soybean Association.

EVERETT RANK

Everett Rank was named Administrator of the Agricultural Stabilization and Conservation Service (ASCS) by Secretary of Agriculture John R. Block on March 6, 1981. He also serves as Executive Vice President of the Commodity Credit Corporation.

ASCS administers USDA's farm commodity programs, conservation cost-sharing programs, disaster assistance programs, and certain national defense programs.

Mr. Rank was ASCS Western Regional Director from 1974 to 1977. He was chairperson of the California State ASC Committee from 1969 to 1974, and chairperson of the Fresno County ASC Committee from 1961 to 1969. He is a past president of Clovis Center Farm Bureau, and a past director of the Fresno County Farm Bureau, Ranchers Cotton Oil Company, Cal-Cot, Clovis-Sanger Gin Co-op, and Huron Cotton Ginning Company. He is a past member of the Clovis Unified School District Board of Trustees, serving as its president for 8 years, and also served on the Board of Governors of California State University of Fresno. A lifelong farmer, Mr. Rank grew cotton, almonds, grain, fruits, and cannery tomatoes on his farm near Fresno. He was named Outstanding Young Farmer by the Fresno County Chamber of Commerce in 1956.

Mr. Rank is a graduate of Clovis High School, Fresno, California. He served in the U.S. Navy during World War II. He is a member of the Clovis Masonic Lodge, the American Legion, and the Board of Deacons of Northwest Church in Fresno.

Mr. Rank and his wife have three daughters and one granddaughter.

CCC EXPORT CREDIT PROGRAMS

Senator COCHRAN. Secretary Lyng, we invite you to proceed in any manner that you wish, to summarize or highlight your statement, and then we will ask you some questions about it.

Mr. LYNG. Thank you very much, Mr. Chairman. I don't have a prepared statement. As you have mentioned, you did submit a letter to us with some detailed questions on CCC credit activities, and we are pleased that our responses will be included in the record.

I am pleased to have an opportunity to come before you this morning and to agree with you that any questions that remain unanswered on the CCC credit activities need to be answered. There has been much in the press and elsewhere that has been inaccurate in regard to some of the problems we have been having in collecting or in making payments on guaranteed loans. The Commodity Credit Corporation, as one of its functions, has the authority to assist in the promotion and development of export sales of agricultural products through the use of various credit programs. Currently, we have only one, which is a guaranteed credit program, but in past years we have had programs where the Commodity Credit Corporation actually extended direct credit to purchasers of U. S. agricultural products.

CCC CREDIT TO POLAND

The outstanding balances on the credit extended to Poland consist of both direct credit and guaranteed credit. The details on that are included in the responses to the questions in your letter.

We have extended credit to Poland for a number of years, and until approximately March of 1981, payment was always made when due. During 1981, the Polish Government began to experience difficulty in making the payments precisely when due. Some complicated rescheduling took place, and payments of some kind continue to be received. This situation is a very fast changing one. Something new seems to be happening almost every day. We continue to have payments become due, either to banks on loans we have guaranteed or on direct loans, and the procedures that have been followed in dealing with overdue payments don't seem to be consistent. Some banks have asked for reimbursement of guaranteed loans; others at this point have not. So it is a very fluid situation.

Our largest amounts involved here are clearly with Poland. There are also, however, some relatively minor amounts with Romania and two other Eastern Bloc countries. Thus far, most of our collection problems have been with Poland. There have been a couple times that Romania didn't pay when due, but we understand that payments are again being made, and that also is a changing situation.

I would be happy, Mr. Chairman, to try to respond to any questions. At the Department we have nothing to hide on this. We believe that everything that we have done is very clearly within the legal authorities of the Commodity Credit Corporation and is also in the best interest of the people of the United States.

AMOUNT OF DELINQUENT LOANS TO POLAND

Senator COCHRAN. Mr. Secretary, how much money are we talking about in terms of direct loans and guaranteed loans to Poland that are now delinquent? I realize we have that information in a lengthy response from the Department, but if you have that, could you describe how much is owed?

Mr. LYNG. No, I couldn't give you the precise amount, and I don't think any of us have it as of today. We have total balances, and we could calculate delinquent payments as of any given date. I would be happy to make that calculation as of today and supply it for the record.

[The information follows:]

DELINQUENCY RATE ON POLISH LOANS

The total deliquency at this point is $63.3 million. This includes $26.8 million which was due in 1981 as part of the rescheduling of debt due that year, $18.1 million in interest on rescheduled debt which was due on January 1, 1982, $18.2 million which was due to CCC during January and February under the direct credit program, and $0.2 million which CCC paid to one bank in February under the guarantee program.

DIRECT EXPORT CREDITS DUE FROM POLAND

Mr. LYNG. The total balance of direct export credit due from Poland on December 31 was $540 million, plus $217 million of interest. The total balance of guarantees on December 31 was $840 million, plus $75 million of interest. These figures are somewhat out of date now, because there have been some payments and some additional interest accruals. As I say, it is quite a large amount of money.

DEFAULT OF LOANS

Senator COCHRAN. There were some questions brought up during our consideration of the supplemental appropriation about why our Government wasn't considering these loans in default. If the Commodity Credit Corporation had to take them over from the banks that initially extended the credit in the case of guaranteed loans, why do we not consider that a default?

Mr. LYNG. There is no question in my mind, Mr. Chairman, when someone fails to make a payment when due that the word default seems to apply. But in the matter of these international loans there seems to be something that might be termed "small-*d* default" and "big-*d* default." There is some kind of formal declaration of default that I understand—and I am not expert in this—would trigger certain cross-compliance matters within some of these loans, and some banks have been unwilling to declare the loans in default, because doing so would jeopardize their chances of collecting not only on these but on others.

CCC requires only that the banks certify that they have not received payment, and once we have received the proper documentation, these are relatively simple guarantees. We have submitted to the committee copies of typical guarantees, and they can be included in the record if you wish.

The question of this formal default is one that has received quite a lot of attention, but the details of it, frankly, are a mystery to me.

Senator COCHRAN. At what point, does the Department consider the loans uncollectable? Have you reached that point yet, or is the Commodity Credit Corporation pursuing collection efforts against Poland, Romania, or any others countries that are not current in their payments on these loans?

Mr. LYNG. At this point, we wouldn't consider these uncollectable by any means, because we are receiving payments. The Romanians, after missing some payments and being notified, have then made payments. The Poles are further behind, having more difficulty and much larger amounts, but they are still making some payments.

ADDITIONAL CREDIT TO EASTERN EUROPE

Senator COCHRAN. How does this affect our effort to finance credit sales of agricultural commodities in other Eastern European countries or to the Soviet Union? Have our policies been affected in any way at all because of these delinquent loans?

Mr. LYNG. We haven't really changed our policy. The policy is not to extend loans to countries that look as if they will not be able to repay, and therefore, we wouldn't consider extending any additional loan guarantees to Poland at this time. That is consistent with past policies. We did not approve any new commitments to Poland last year. The commitments and the loans we are talking about were made prior to 1981. We did deliver on the commitments in 1981, but they were made prior to that time.

We actually rejected a request from Romania for guaranteed loans, because they didn't seem to be a good risk. I can't recall any rejections of applications from other Eastern European nations. The CCC has not extended credit to the Soviet Union for a number of years.

COMPETITION FOR EXPORT MARKETS

Senator COCHRAN. We are hearing that foreign suppliers of commodities and agricultural products are competing in an aggressive way with the United States for sales in third world countries and in other markets and causing the United States to lose sales of agricultural and industrial products overseas. What is your assessment of our competitive situation with respect to other foreign producers of agricultural commodities that compete with the United States in the foreign markets? Is the Commodity Credit Corporation's export program designed to meet this competition and assure a fair share of this international market for U.S.-grown commodities?

Mr. LYNG. Mr. Chairman, I would say that generally it is designed and is functioning to permit us to meet that competition. On occasion we have some competition that is much more difficult. A typical example is the export subsidies that are currently being offered by the European Community. These subsidies pose some serious difficulty, and we do not have in our arsenal any kind of weaponry that would make it possible for us to compete. That is why we are so vigorous in our efforts to get the Europeans to correct what seems to be an avowed policy. But in terms of prices and credit under normal competitive conditions, I think that we are able to do a pretty good job.

Senator COCHRAN. Are there more favorable credit terms being offered by the European Community or any of the other agricultural producing countries that are causing us to lose sales, or are we finding this competition more effective in the case of export subsidies or other arrangements being made by our competitors?

Mr. LYNG. There are some occasional subsidies in the form of very low-interest loans, no-interest loans, or special credit provisions. But I don't believe that we are losing substantial export opportunities. We are watching that issue very closely, and we believe at this point the programs we have should be adequate if we can get other nations to live up to the GATT agreements. We are going to be vigorous in pursuing that cooperation.

LEVEL OF EXPORTS FOR 1982

Senator COCHRAN. Someone has already given us figures indicating that this year's export sales abroad may be less than they were last year. Is this because we are not being aggressive enough in promoting agricultural sales abroad or is this reflective of a deficiency in our credit sales policy?

Mr. LYNG. I would say it is neither, Mr. Chairman. While we do anticipate that our total value of export sales for 1982 may be less than 1981, the actual tonnage will be greater. The reason the total value will be down is that the prices of all the major commodities—wheat, corn, cotton, soybeans, and rice—are considerably down. The reason for that, of course, is the large supplies. However, the problem is compounded by the fact that the dollar has strengthened around the world at a time when economic conditions worldwide are not very strong. This makes our exports more expensive for our foreign buyers, so that the amount they demand from us is less than it otherwise might be.

Senator COCHRAN. Is it your judgment that we need to expand our credit programs in order to help improve our export situation? Do we need to be offering more attractive sales arrangements?

Mr. LYNG. We have studied this question quite carefully. We don't believe that we should offer more credit unless it will result in additional sales. I think that our $2.5 billion of guaranteed credit is adequate for this year. Much will depend upon the economic conditions and competitive situation around the world. If it became at all apparent that we were losing ground because of competition in this regard, the administration, I am sure, would ask for some assistance to restore our competitiveness. But at this point we don't believe that it is necessary.

SALES TO THE SOVIET UNION

Senator COCHRAN. In the case of purchases by the Soviet Union, are we still receiving hard cash for those purchases or do we have credit sales arrangements with the Soviet Union now?

Mr. LYNG. We have no Government involvement in any credit to the Soviet Union. The press has reported that the Soviet Union has been arranging through commercial sources some short-term credit to cover their imports of agricultural commodities and other items, but we in the Government know nothing official about that.

EXPORT CREDIT REVOLVING FUND

Senator COCHRAN. In the farm bill that we passed this last year, there was an authorization for a revolving export credit fund. There was no request, however, in the administration's budget for funding for this next fiscal year of an export credit fund. Do you anticipate any request being made by the administration for funding of this program in the future?

Mr. LYNG. You are correct, Mr. Chairman, we didn't request it in this year's budget. I think there was a general consensus that such a revolving fund would be desirable; we have no opposition to the concept or to the fund itself. Our problem was strictly a matter of budget constraint. If the budget situation eases, we might be able to request that funding. I doubt very much, frankly, that it would be possible in any supplemental this year, but perhaps in the 1984 budget request.

Senator COCHRAN. What is your assessment of how a fund such as the revolving credit fund could help boost the sale of American agricultural products abroad?

Mr. LYNG. I think it would be assumed that with a fund like that, we would have more flexibility than with guaranteed credit. The interest rates for guaranteed credit are determined by negotiations between borrower and lender and reflect whatever is going on in the money markets at that time. The guaranteed loans never exceed 3 years. With a revolving fund we would be able to offer longer term credit, perhaps at a lower rate of interest. The fund would be of no value if it was used just to give a better deal to the people who are already buying our products. It would be of considerable value, however, if it was used to produce additional sales.

REVISED CCC OUTLAY ESTIMATES

Senator COCHRAN. We had a letter the other day from David Stockman, Director of the Office of Management and Budget, accompanied by a copy of a letter to him from you indicating that a sizable increase in Commodity Credit Corporation outlays is expected this year, fiscal 1982, as well as 1983, over and above the earlier projections. I would like to place those letters and related materials on that subject in the record at this point.

[The letters follow:]

LETTER FROM DAVID A. STOCKMAN
DIRECTOR
OFFICE OF MANAGEMENT AND BUDGET

The Honorable Thad Cochran, Chairman
Subcommittee on Agriculture and
 Related Agencies
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Thad:

As noted in the President's Budget, the Commodity Credit Corporation estimates for FY 1982, FY 1983 and outyears were based on information used by the Congress last December during consideration of the Agriculture and Food Act of 1981.

Because these major amendments to the farm program were not signed into law until December 22, 1981, the Department of Agriculture was not able to announce major discretionary program decisions until January 29, 1982. The uncertainty in the law governing the agricultural commodity programs, together with the lack of new world supply-demand data (published on February 11, 1982), precluded revision of the CCC estimates in time for publication of the budget on February 8.

The Department of Agriculture has just completed a preliminary re-estimate of CCC outlays during FY 1982 and FY 1983. Although we plan to submit budget re-estimates to the Congress in April pursuant to law, the magnitude of the anticipated change in the CCC estimates is such that I wanted to bring it to your attention immediately.

The enclosed letter from the Secretary of Agriculture presents the new estimates and provides an explanation of the circumstances that led to such a large increase in such a short time.

We will continue to refine these estimates in the time remaining before submission of the official re-estimates in April. As weather, economic, and commodity market conditions change, we anticipate possible further adjustments, though at this point it is impossible to predict whether outlays will be above or below the estimates in the enclosure.

I am certain that my office and the Department of Agriculture stand ready to respond to any questions you may have concerning these estimates.

Sincerely,

David A. Stockman

David A. Stockman
Director

Letter From Richard E. Lyng

ACTING SECRETARY

Department of Agriculture

Honorable David A. Stockman
Director, Office of Management and Budget
Washington, D.C. 20503

Dear Mr. Stockman:

We are writing to inform you of the Department's recently updated outlay estimates for the Commodity Credit Corporation (CCC) for FY 1982 and FY 1983. (Summary table enclosed.) We know these re-estimates will not be pleasant news, but we felt you needed to have the most accurate and up to date information on where we stand on these outlays.

As you know, the CCC estimates contained in the President's January Budget were based largely on the estimates used during the the development of the new farm bill. The FY 1982 outlays are primarily associated with the 1981 crops which, with the exception of dairy, were administered under the authorities of the Food and Agriculture Act of 1977. The FY 1983 outlays contained in the budget were based on August agricultural supply-demand estimates and did not take into account the final 1982-crop program decisions, which had not been made at the time the budget was printed. We indicated to your staff and to Congressional committees that soon after the presentation of the January budget the Department would provide re-estimates of CCC outlays based on more recent supply and demand conditions as well as the final 1982 program decisions.

Estimating CCC outlays is difficult and complicated. The error range is always quite large due to the uncertainties of weather and economic conditions in the U.S. and throughout the world. These forces combined this year to push the estimates considerably higher than those earlier included in the budget. The major reason for the increase is that we have larger crop and dairy supplies than previously anticipated. Record acreage planted for 1981 crops, and excellent growing conditions, have resulted in crop production more than 15 percent above the 1980 levels. Total production of wheat, feedgrains, and soybeans was up almost 2.7 billion bushels from the drought-damaged 1980 crop. Upland cotton production was the highest in 28 years. At the same time, demand has been sluggish, largely because of poor economic performance in the U.S. and abroad and the generally high level of agricultural production worldwide.

To a large extent, these conditions, particularly on the supply side, were not foreseen last August. The August crop report does not give us a very accurate fix on the size of the feedgrain, cotton, rice and oilseed crops. We have also not seen the anticipated downturn in milk production. (A summary of the supply/demand changes since August is enclosed.) Moreover, since the Farm Bill had not passed, we could not be certain of the authorities we would have, and therefore, could not accurately formulate all the program assumptions necessary to update the outlay estimates.

In a few days the Department will provide your staff with more information on these estimates. It is possible that the more detailed staff work will result in some minor refinements to the figures in the enclosed table. We felt that we should not delay providing these basic figures because of the magnitude of the changes and the obvious need to provide this information to everyone involved as soon as possible.

Sincerely,

Richard E. Lyng

Richard E. Lyng
Acting Secretary

Estimated CCC Outlays

	FY 82	FY 83
	(million dollars)	
Feed Grains and Products	4,718	2,077
Wheat and Products	1,475	863
Rice	179	110
Upland Cotton	963	79
Tobacco	-95	19
Dairy	1,908	1,804
Soybeans	-17	-15
Peanuts	43	2
Sugar	-8	0
Wool	51	63
Subtotal	9,217	5,002
Emergency Feed Program	40	0
Export Credit	-536	-152
torage Facilities	-174	-269
Net Interest	1,122	1,463
CCC Administrative	317	321
Rescheduled Guaranteed Loans	143	0
Change in Working Capital	-61	0
All other	-4	-15
Subtotal	847	1,348
Contingencies 1/	400	400
TOTAL CCC OUTLAYS	10,464	6,750

1/ Unforeseen loan forfeitures and unexpected increases in deficiency payments.

Summary of Changes in the Supply/Use Estimates from August to February

Wheat, feed grains, upland cotton, and dairy are the major commodity components of the total CCC outlays. Together, they account for 90 percent of the FY 1982 outlays, and 80 percent of the FY 1983 outlays.

Wheat

- 1981 production rose from 2747 mil. bu. projected in August to 2793 mil. bu. estimated in February.
- Projected 1981-crop ending stocks rose by 29 mil. bu. -- from 1033 mil. bu. estimated in August to 1062 mil. bu. estimated in February.
- Projected 1981-crop farm price fell by 15 cents -- from $3.85 projected in August to $3.70 projected in February.
- Farmer-owned reserve at end of FY 82 is projected at 620 mil. bu. now -- 35 mil. bu. higher than projected in August.
- Deficiency payments on 1981 crop were $394 million rather than the $470 million projected in August.
- 1982 production is now projected at 2675 mil. bu., 165 mil. bu. higher than projected in August.
- 1982-crop ending stocks are projected at 1064 mil. bu., 78 mil bu. higher than projected in August.

-- Farmer-owned reserve is projected at 632 mil. bu. by the end of FY 83, 102 mil. bu. higher than projected in August. Reserve loan rate is 15 cents higher.

-- Season average price for the 1982 crop is 55 cents lower, $4.45 in August compared to $3.90 in February.

-- Deficiency payments of $325 million are now projected for the 1982 crop; none were projected in August.

Feed Grains

-- 1981 corn production rose from 7735 mil. bu. projected in August to 8201 mil. bu. estimated in February.

-- Corn ending stocks are 749 mil. bu. higher -- 1277 mil. bu. projected in August compared to 2026 mil. bu. in February.

-- Farmer-owned corn reserve is 875 mil. bu. larger by the end of FY 82 -- 375 mil. bu. projected in August compared to 1250 mil. bu. projected in February.

-- Season average price for corn is 40 cents lower ($2.85 in August compared to $2.45 in February) for the 1981 crop.

-- Deficiency payments on 1981-crop sorghum and barley are $231 million higher than were projected in August.

-- 1982 corn production is 271 mil. bu. lower because no acreage reduction program was assumed in the August analysis.

-- Projected corn ending stocks of the 1982 crop are 1028 mil. bu. higher than projected in August -- 2325 mil. bu. now projected.

-- Average farm price for corn is 60 cents lower ($2.60 compared to $3.20) for the 1982 crop.

-- Farmer-owned corn reserve is 1 bil. bu. larger by the end of FY 83 -- 500 mil. bu projected in August compared to 1500 mil. bu. projected in February.

-- Deficiency payments on the 1982 crop of corn, sorghum, and barley of $528 million were projected in February; none were projected in August.

Upland Cotton

-- 1981 production is 900,000 bales higher -- 14.7 mil. bales projected in August compared to v. 15.6 mil. bales in February.

-- 1981 ending stocks are 1.7 million bales higher.

-- Deficiency payments of $480 million were projected in February for the 1981 crop; none were projected in August.

-- Loan carryout is 1.2 mil. bales higher, and net lending for FY 82 is $300 million higher than projected in August.

-- 1982-crop production is 500,000 bales lower because the 15-percent acreage reduction program was not assumed in August.

-- Projected 1982-crop ending stocks are 900,000 bales higher.

-- Deficiency payments of $330 million are projected for the 1982 crop; none projected in August.

-- Repayments of 1981-crop loan carryover caused net lending to be $205 million lower than projected in August.

Dairy

-- 1981/82 marketing year cow numbers up by 370,000 to 11.0 million; output per cow up by 200 pounds since the August estimates.

-- Milk production up by 5 bil. lb. in 1981/82 from the August projection.

-- 1981/82 net removals up by 4.8 bil. lb. because consumption was not changed from the August estimate.

-- 1982/83 marketing year milk production up by 6.5 bil. lb. from the August projection.

-- 1982/83 net removals up by 8.3 bil. lb. from the August projection.

ADDITIONAL OUTLAY NEEDS

Senator **Cochran**. I understand that the additional outlay needs could approach $9 billion—roughly, $4 billion in fiscal year 1982 and $5 billion in fiscal year 1983. This is over and above, as I understand it, the $5 billion that was contained in the supplemental appropriation already approved by the Congress this year. Is that the current projection, as you understand it, and if so, how will these funds be used?

Mr. **Lyng**. Yes, Mr. Chairman, our current projection is the same; however, I don't believe it is accurate to say it would be the amount over and above the $5 billion supplemental. The $9 billion in additional outlay needs really is the amount over and above the outlay estimates included in the President's budget for this year and next. The $5 billion that was appropriated was to help us in our cash situation by reimbursing the Commodity Credit Corporation for realized losses that have accumulated over a period of time. The funds will be used primarily for programs like price support loans on wheat, corn, cotton, and rice; for reserve programs on wheat, corn, and other feed grains; for the dairy support program, which is running at a much higher rate than we had anticipated; and for other programs. The Polish credit situation potentially could require us to reimburse their lenders as much as $800 or $900 million during those 2 years. Much of the $9 billion you referred to is loans on commodities other than dairy. They are loans, and loans that we believe will be paid back to the Government. I would predict, Mr. Chairman, down the road a year or two, instead of the Commodity Credit Corporation coming in asking for funds, we will be accumulating funds when these loans are all paid off.

CCC EXPENDITURES

I will be happy to provide for the record a detailed breakout of CCC's fiscal year 1982 and 1983 estimated expenditures by category.

[The information follows:]

COMMODITY CREDIT CORPORATION

FISCAL YEAR 1982

Comparison of March 4 Estimate vs. President's Budget
(dollars in thousands)

ITEM	President's Budget	March 4 Estimate	Change
Outlays:			
Loans - Commodity................	8,459,329	10,789,071	+2,329,742
Loans - Storage Facilities.......	95,000	108,374	+13,374
Loans - Guarantees Rescheduled...	158,826	158,980	+154
Purchases........................	2,200,755	2,459,061	+258,306
Storage and Handling.............	187,772	239,710	+51,938
Transportation...................	63,946	86,162	+22,216
Processing and Packaging.........	39,906	37,006	-2,900
Producer Storage Payments........	324,800	563,300	+238,500
Loan Collateral Settlements......	-1,026	26,485	+27,511
Direct Payments..................	1,426,543	1,409,472	-17,071
Short-Term and Intermediate Export Credit Sales.............	45,747	45,747	---
Administrative Expenses..........	319,710	319,710	---
Interest Expenditures............	1,585,258	1,790,833	+205,575
Other Expenditures...............	53,184	43,184	-10,000
Allowance For Contingencies......	---	400,000	+400,000
TOTAL Outlays....................	14,959,750	18,477,095	+3,517,345
Receipts:			
Repayments - Commodity Loans.....	6,043,350	5,583,219	-460,131
Repayments - Storage Facility Loans.................	281,073	280,473	-600
Repayments - Guarantees Rescheduled....................	15,882	15,882	---
Sales Proceeds...................	930,221	854,042	-76,179
Repayments-Export Credit Sales...	582,020	582,020	---
Interest Income..................	728,991	673,178	-55,813
Nonadministrative Income.........	17,338	17,338	---
Realization of Assets............	50	50	---
Other Receipts...................	1,200	1,800	+600
TOTAL Receipts...................	8,600,125	8,008,002	-592,123
Net Expenditures Above...........	6,359,625	10,469,093	+4,109,468
Change in Working Capital........	-61,018	-61,018	---
Net Expenditures, Support and Related...............	6,298,607	10,408,075	+4,109,468
Special Activities (Wool)........	44,632	51,428	+6,796
TOTAL CCC Net Expenditures........	6,343,239	10,459,503	+4,116,264

COMMODITY CREDIT CORPORATION

FISCAL YEAR 1983

Comparison of March 4 Estimate vs. President's Budget
(dollars in thousands)

ITEM	President's Budget [1/]	March 4 Estimate
Outlays:		
Loans - Commodity	---	8,308,184
Loans - Storage Facilities	---	40,000
Loans - Guarantees Rescheduled	---	---
Purchases	---	2,106,468
Storage and Handling	---	246,744
Transportation	---	64,236
Processing and Packaging	---	32,829
Producer Storage Payments	---	644,480
Loan Collateral Settlements	---	18,280
Direct Payments	---	1,281,351
Short-Term and Intermediate Export Credit Sales	---	---
Administrative Expenses	---	324,449
Interest Expenditures	---	2,134,045
Other Expenditures	---	3,000
Allowance for Contingencies	---	400,000
TOTAL Outlays	---	15,604,066
Receipts:		
Repayments-Commodity Loans	---	7,191,794
Repayments-Storage Facility Loans	---	308,165
Repayments-Guarantees Rescheduled	---	---
Sales Proceeds	---	573,858
Repayments-Export Credit Sales	---	151,944
Interest Income	---	685,902
Nonadministrative Income	---	18,144
Realization of Assets	---	100
Other Receipts	---	1,200
TOTAL Receipts	---	8,931,107
Net Expenditures, Support and Related	1,819,000	6,672,959
Special Activities (Wool)	31,000	62,723
TOTAL CCC Net Expenditures	1,850,000	6,735,682

1/ The 1983 outlay totals for CCC were developed during final congressional consideration of the Agriculture and Food Act of 1981. Because the bill was signed only on December 22, 1981, important decisions regarding implementation of the program could not be made by the time of budget preparation. The normal financial detail is therefore not available.

OUTLAYS FOR PRICE SUPPORT ACTIVITIES

Senator **Cochran**. What is somewhat confusing to me is, in view of the letter from David Stockman and your letter to him projecting these additional outlay needs, the current request, as I understand it, is to raise the borrowing authority of the Commodity Credit Corporation to $25 billion in fiscal 1982 and to reimburse the Commodity Credit Corporation in 1983 for net realized losses totaling approximately $3.8 billion. What do your reestimates do to the status of this current request? Is the letter from David Stockman and your letter to him an alteration of the current request or is that just for our information?

Mr. **Lyng**. The letter really gives an estimate of what our expenditures, our outlays for price support activities, will be. It does not alter the request that you refer to for the $25 billion; that is a $5 billion increase in our borrowing authority. It will be essential that we receive that if we are going to be able to continue to make the outlays, particularly in fiscal 1983. We might be all right for fiscal 1982, but it is going to be close. Almost certainly, as we move into fiscal 1983, we will need more than the total $20 billion borrowing authority we now have.

If I am wrong on that, would you correct me.

Mr. **Rank**. That is right.

NET REALIZED LOSSES

Senator **Cochran**. Why are the projections for net realized losses of $3.8 billion for next fiscal year not affected by your reestimate of outlay needs of an additional $4 billion in fiscal 1982 and $5 billion in fiscal 1983? Were they anticipated and, therefore, your projection for net realized losses took that into account?

Mr. **Lyng**. The $3.8 billion appropriation request is to reimburse the Corporation for losses incurred in fiscal years 1980 and 1981. Since the law requires reimbursements to be based on actual losses recorded in the CCC books, there is always a time lag. Thus, the request was not affected by our reestimate of fiscal years 1982 and 1983 outlays.

When we are reimbursed for losses, obviously that helps our cash situation, because the money is used to repay outstanding Treasury borrowings. So it has a positive impact upon borrowing authority available. But even if we had no realized losses and all we did were the corn, wheat, and other commodity loans, we could still need the borrowing authority increase if the volume of outlays were that high.

CCC BORROWING AUTHORITY

Senator **Cochran**. So, it is your anticipation that there won't be any need for a supplemental appropriation this fiscal year for the Commodity Credit Corporation; is that correct?

Mr. **Lyng**. I believe that is correct. I think we have enough borrowing authority because of that $5 billion of realized losses that were reimbursed; I think we can meet the needs for the balance of this fiscal year.

Senator **Cochran**. As it relates to the $25 billion in borrowing authority, is that a request that will be made of the legislative committee or will that be a request that will be made simply to the Appropriations Committee?

Mr. **Lyng**. We have the authorizing legislation for $25 billion. We need the appropriation to provide it.

Senator **Cochran**. There was some rumor we heard that you may be asking for authority to go to $30 billion instead of $25 billion. If that was contemplated, then that would require legislation; is that correct?

Mr. **Lyng**. That would require substantive legislation; yes.

Senator **Cochran**. But you do not anticipate making that request?

Mr. **Lyng**. This is the first I have heard of it.

Senator **Cochran**. I just pass on that rumor. They say here in Washington that if you haven't heard a rumor by noon, you ought to start one. It keeps things livened up.

Mr. **Lyng**. I am pleased to be included.

Senator **Cochran**. Mr. Secretary, we realize you have other pressing engagements this morning. We want to thank you very much.

Senator **Andrews**. Wait a minute.

Senator **Cochran**. I am sorry. You slipped in there. Senator Andrews, welcome to the committee.

EFFECTS OF POLISH LOAN DEFAULT

Senator **Andrews**. I am sitting over here quietly. That is not my style. Mr. Lyng knows about how quiet I usually am.

My colleague asked some questions about Poland, and I am also concerned about Poland. I am concerned with increasing agricultural exports, because I think we can win a lot more friends with food than with bayonets. I think we ought to expedite that. The Cabinet has been concerned about the pipeline that is coming from the Soviet Union into Europe—agonizing over how Europe might become dependent on the Soviets for fuel energy. We should recognize how good it would be for us to get the Soviets dependent on us for food energy, which is more important than fuel energy.

I would like some specifics, Mr. Secretary, on what the effects would be of a default on the Polish loan. We have heard them both ways. They say if you push them into default, that is the only way you are going to get the money. If you don't push them into default, we are not going to get one red nickel back. What are the facts?

Mr. **Lyng**. Senator, I am not sure I know. I don't have the expertise in international finance to answer that.

Senator **Andrews**. Who does?

Mr. **Lyng**. I have listened to testimony from people from the Department of the Treasury and the Department of State, and it seems that if there is such a thing as a formal declaration of default, there is a cross-triggering clause among loans that could have some widespread effect. As far as the Department of Agriculture is concerned, when we get notification that someone has failed to make a payment, we consider that payment in default. That is just a common word that is used. We don't really understand what is involved in the formal declaration of default. There does seem to be some value to the strategy of our deciding to formalize a default of our Government's choosing, and we defer to other experts on that. We just don't have the expertise.

PROFITS FROM RUSSIAN GRAIN SALES

Senator ANDREWS. Well, if you don't understand what happens under default, who really does? We have heard a dozen rumors—we don't even have to start those—about what is going to happen if we put them in default and how terrible it would be. You know ever since the Russian grain sale in 1972–73, which ended up, according to a GAO report, with the Federal Government making a $470 million net profit and a $700 million gross profit. It cost the Government about $200 million for the export subsidy. All you read in the paper was the $200 million cost. You never heard about the $700 million profit or the fact we came off with half a billion net profit.

Now, we have the same kind of fact-fumblers in charge spreading the rumor that the sale of grain to Poland or Russia is not in our best interest. It looks like everything you hear is going to go down like a tumbling house of cards. Who will get this information out in the open so people can actually see what the options are and realize there is a choice between declaring default and not declaring default. The choice, obviously, is going to result in condition A if you declare default, or condition B if you don't declare default?

Mr. LYNG. There are no secrets to this, Senator. I would be glad to submit for the record some comments prepared by experts on this question. I don't feel qualified to go into it.

Senator ANDREWS. If you could submit for the record the two scenarios, just exactly where we are, why is this just standard operating procedure, and where do we go from here. And if we did declare default, what are the regulations covering any future loans to that country; do you know that?

Mr. LYNG. If a country has loans in default, I am sure CCC wouldn't be making any additional loans to them at all. We aren't, in any case, making additional direct loans or guaranteed loans to Poland. We certainly were not snookered. Actually, the guarantees on the loans to Poland were made by the Commodity Credit Corporation under the previous administration.

Senator ANDREWS. I don't think we were either. But if you want to read the Washington Post, they would have you believe that somehow or another when we get into the sales of grains, we all get unhooked from reality.

Mr. LYNG. That, unfortunately, is true, Senator, and we are disturbed when we read that the Commodity Credit Corporation or the Department of Agriculture has decided to bail out some banks. We have had no options whatsoever on this. These were absolute, clear guarantees that have been in existence for 2 and 3 years. They make it impossible for us to do anything but to make these payments.

REPAYMENT OF OVERDUE LOANS

Senator Andrews. One of the things that bothers me, aside from losing grain markets—and I can be as parochial as the next Senator—is if we exacerbate the domestic situation in a country like Poland by running off and jumping up and down and refusing shipments of grain, we could make the tough situation more dismal. Rather than helping, we would really exacerbate a tough situation. Food shipments ought to continue until everything else is stopped. If you get into a state of hostility, you stop everything. But this is just a philosophy of mine that I think we are missing the boat on. That is why I hope we can get all the facts on the line, so the Congress and the general public will be able to make a decision based on fact instead of rumor.

Is there any chance we will ever be repaid?

Mr. Lyng. Oh, I think there is a good chance. As a matter of fact, I have learned that nations rarely totally, permanently go broke. Almost all the money that the Commodity Credit Corporation, for example, has ever been owed gets rescheduled if past due. You may not collect all the interest, but eventually there will be a chance for payment. The Poles paid steadily from 1963 until last March. Now admittedly, that amount has gotten quite a bit larger, because they were buying more of our corn during 1979, 1980, and 1981. We wish we could be selling to them now, but we had to discontinue further credit guarantees when they stopped making payments.

Senator Andrews. In your mind, what scenario should we follow to have the best possibilities of getting these loans repaid?

Mr. Lyng. We have made demands upon the Polish State Bank, and we will continue to do so. We will take any other steps we can. One of the advantages of the formal default that you referred to earlier is that it gives an opportunity to seize assets or go to court as a creditor and put liens on assets. However, the Polish Government has almost no assets that we can lay our hands on in the United States. The advantages of a formal default just didn't seem to be of any value. There are some payments being made, so we are better off not to close the door. Our position is a little like that of creditors having someone stay in business rather than forcing them into bankruptcy.

Senator Andrews. In other words, your position is that strictly from the standpoint of dollars involved and recapturing our dollar, the course we are following in negotiations probably represents the best possible way of getting the maximum amount of this money back rather than going toward foreclosure or declaration of default.

Mr. Lyng. I am convinced it is, Senator.

Senator Andrews. And, of course, you will provide the information I asked for earlier to back that up.

Mr. Lyng. Yes.

[The information follows:]

DEFAULT: RESULTS OF CCC DECLARATION OF DEFAULT

The word "default" has several meanings. When the Commodity Credit Corporation (CCC) used the word "default" in the GSM-101 and GSM-102 regulations, it meant only that the payment was not received on the due date. In this context, default has no special meaning. It does not mean that CCC will attempt to seize all Polish assets and it was not intended to force other Polish creditors to attempt to seize Polish assets.

Claimants following the regulations under the two programs are not required to use the word default in presenting a claim to CCC. As far as CCC is concerned, use of the word has no implications on the subsequent actions which are taken by CCC or the claimant.

CCC understands, however, that the word "default" in the context of commercial banking practice sometimes does have special meaning. If a creditor declares a debtor "in default" on a contract it will almost always mean that the creditor is seizing that debtor's assets, calling due immediately all of the debtor's outstanding balance under the contract, and invoking any other penalties the creditor may choose. Most, if not all, agreements between private banks and Poland contain what are termed "cross-default" clauses. These clauses provide that if Poland has been declared in default on any contract with any creditor, then Poland is also in default on the contract containing the cross-default clause. Thus, if a U.S. bank declared Poland in default on a credit guaranteed by CCC, for example, a small bank in Austria could also declare Poland in default on its contracts with that Austrian bank by virtue of the cross-default clauses in that Austrian bank's contracts.

Private banks with loans to Poland could have declared Poland in default on numerous occasions during the past year for being late in payments. However, since there are few Polish assets in the West, it is doubtful that it is in the interest of any creditor to seize them. If one creditor declared Poland in default and attempted to seize Polish assets, all other creditors would attempt to seize the same assets. Poland would be unable to export directly, until it came to an agreement with creditors or exported through third parties. Poland's incentive to make any payments on its outstanding debt would be eliminated.

U.S. banks approached CCC to suggest that there was some danger that following the normal claims procedures with CCC would be misconstrued by other creditors of Poland as a declaration by those U.S. banks that Poland was in default. This could cause a Polish creditor somewhere in the world to exercise its cross-default clauses, claim that all its loans to Poland were immediately due and payable, and attempt to seize Polish assets. CCC was skeptical about this possibility, but agreed to adopt an alternative procedure to repurchase CCC's guarantee obligations rather than require the filing of claims. This procedure did not increase the liability of CCC to pay U.S. banks or accelerate the payment dates. Holders of CCC guarantees still had to wait until they failed to receive payment from Poland before CCC would make payment to them. The maximum payment by CCC would be no more than it would have been obligated to pay under the normal claims procedure.

If CCC required holders of CCC guarantees to use the word default in applying to CCC for payment, it is likely that the effect would be precisely the same as under the repurchase procedure. The effect would be different if CCC decided to seize all Polish assets, but the decision to do this is not directly affected by use of the word default in CCC disbursements. Below is a summary of the effects of declaring default:

If CCC declares Poland in default:

1. Missed payments to U.S. banks or CCC by Poland serve as the basis to declare Poland in default.

2. After paying banks CCC could-

    a. Try to seize Polish assets in the West.

    b. Pursue other avenues to collect from Poland.

3. If CCC tries to seize Polish assets, Poland's other creditors will most likely respond by also attempting to seize Poland's assets. It is not certain what Poland's other creditors would do if instead CCC pursues other avenues, but they may still attempt to seize Polish assets.

4. Result of attempt to seize Polish assets:

    a. A myriad of lawsuits.

    b. Poland will have no incentive to service outstanding debt and probably will cease payment of interest.

    c. Polish export shipments may be blocked until Poland arranges exports through third parties to avoid seizure of cargoes and ships.

    d. Collection of any interest payments by CCC or other creditors may be suspended indefinitely.

    e. Ripple effect will affect other Eastern European borrowers and international lending in general. Exact effect is uncertain.

    f. U.S. allies may resent unilateral action by CCC.

If CCC does not declare Poland in default:

1. CCC will repurchase its guarantee obligations for missed payments to U.S. banks by Poland.

2. After paying guarantee holders, CCC notifies Poland that payment is overdue and asks for immediate payment.

3. Poland has incentive to maintain interest payments to its creditors, resulting in net flow of resources from Poland to the West.

4. Other Polish creditors cannot use CCC disbursements as an excuse to try to seize Polish assets.

COST OF AMERICAN GRAIN ABROAD

Senator ANDREWS. You mentioned a minute ago in responding to the chairman when he asked you about the volume of grain exports, that one of the problems we face is a strong dollar that makes our exports more expensive. I think that was almost a direct quote. More expensive than what?

Mr. LYNG. Than grain at the same price would have been the year before.

Senator ANDREWS. Well, the same price the year before. Wheat was selling for 80 cents a bushel more 1 year ago. Strong dollar or no strong dollar, it is cheaper.

Mr. LYNG. Other things being equal, that could be the reason.

Senator ANDREWS. The point is, it is not. Grain is cheaper this year than it was last year even given the strong dollar.

Mr. LYNG. It is cheaper in dollars, but not in deutsche marks, in rubles, or British pounds.

CHANGE IN CURRENCY VALUES

Senator ANDREWS. You mean there has been more than a 30-percent change in the value of our currency?

Mr. LYNG. About 30 percent in many of those cases; yes.

Senator ANDREWS. Then let me phrase the question from a much more important standpoint. Cheaper than what other commodity sources they might have for wheat? Certainly not cheaper than the Canadians or Australians or Argentines, who I understand all have a cost of production approaching ours. Our cost of production is a couple, three dollars over what we are getting for our grain now.

Mr. LYNG. The dollar has strengthened slightly in comparison to the Canadian dollar which has remained constant with the Australian dollar, and has gained very, very sharply in relation to the Argentine peso. The strengthening of the dollar has made U.S. farm products relatively more expensive than the competitive products from other nations.

Senator ANDREWS. You mean the old rule of thumb that our grain is going to sell for a nickel over what the Canadians sell it for, because the Canadians can underprice us by a nickel. They sell all the grain they have to sell, and when they stop selling, then people start coming to us. That hasn't changed, has it?

Mr. LYNG. We are seeing the same pattern for some other reasons.

Senator ANDREWS. So the point is that it isn't a case of our strong dollar or anything else. It is just a case that right now, given today's situation in the world, they are not coming to us, because they are drawing off Canadian, Argentine and Australian grain which always is pegged slightly under ours. We are in fact, and remain, the residual suppliers of the world.

Mr. LYNG. Yes; but one of the reasons the total, in terms of dollar sales, is not as great as it might otherwise be is the value of the dollar relative to the yen or the European currencies. This is one of the reasons I cited earlier in responding to the chairman's question on the total income. Another reason I mentioned was low prices. And I think we have to make clear the fact that shipments thus far this season on wheat were up about 17 percent in tonnage; in soybeans they are up about 23 or 24 percent.

Senator Andrews. Why don't you mention that more often. Then, out in the rural areas they would say, "Hey, you guys are doing a pretty good job."

Mr. Lyng. The problem is I didn't get to corn. Corn is not doing nearly as well.

Senator Andrews. We don't raise a heck of a lot of corn in North Dakota.

Mr. Lyng. That is why I mentioned wheat first.

PRICE OF FOREIGN GRAIN

Senator Andrews. The point is the wheat market is probably more depressed than the corn market. The volume of exports is up this year. But again, I don't think that we ought to have the word go around this country that the only way we can have farm prosperity is with a weak dollar. I think the fact the dollar has strengthened is one of the pluses for the Reagan administration. And I don't think it makes a bit of difference whether that dollar is strong or weak, because the competition is always going to price their stuff at a nickel under us. Our grain is always going to go into foreign markets at under the foreign country's cost of production. What is the price support in Europe now for wheat, $9.70?

Mr. Lyng. I don't know. It is high.

Senator Andrews. You have a bunch of experts with you.

Mr. Lyng. I suspect it is more like $5.50 or $6.

Senator Andrews. You mean the support price in Europe is only $5.50?

Mr. Lyng. I just don't know.

Senator Andrews. You mean with all these experts you have sitting out there in the back rows, you don't know? I remember in the old days the second or third row could always give you an answer.

Mr. Lyng. We are thin these days.

Senator Andrews. Nobody knows now what the support price for wheat is in the European Economic Community. Seeley, come on, you know.

Mr. Lodwick. Senator, we anticipate having the Foreign Agricultural Service here within the next few days. Undoubtedly, they will have the information.

Senator Andrews. But, Seeley, I thought you communicated with them on something as basically important as this.

Mr. Lodwick. I don't know what the support level is now. I think $9 is high.

Senator Andrews. Well, the $5, that our friend Secretary Lyng mentioned, is low.

Mr. Lodwick. It might be low, but not much. It is roughly double our price here in the United States.

USE OF CCC FUNDS

Senator Andrews. Well, that is eight bucks. Our price is four. That is a far cry from five.

Anyway, I guess I can't even lead the witness this morning.

You asked, Mr. Chairman, about whether or not they would need more money for CCC. I think that is a most important question, and they kind of slipped around that one. They said they didn't think they were going to need anymore. What are you going to use the $5 billion for that we gave you? Can you give us a breakdown of what those $5 billion are going to go for?

Mr. LYNG. Senator, that funding permits us to continue to operate all of the programs we write checks for every week. We would be glad to give you a breakdown for any periods you wish. When we received the $5 billion, we were just about out of cash. And we have continued our dairy support purchases.

DAIRY SUPPORT PURCHASES

Senator ANDREWS. Of the $5 billion, how much is going to go toward dairy support purchases?

Mr. LYNG. Of the total amount of CCC moneys this year, fiscal 1982, it now looks as if we could have a net of about $2 billion for dairy purchases.

Senator ANDREWS. So you think that $2 billion of the $5 billion would go toward dairy purchases?

Mr. LYNG. Well, we are going to try and do something about that.

Senator ANDREWS. But I am trying to find out how you figure your budget. You came up and asked for $5 billion; we gave you $5 billion, some of it for commodity programs, some for Public Law 480, some of it for the cost you incur for the milk price support program. You must have some kind of a breakdown to justify the $5 billion you came up with.

Mr. LYNG. In the letter the chairman referred to, for fiscal year 1982 we gave an estimate of CCC outlays totaling $10.4 billion. It is quite a long schedule here.

Senator ANDREWS. How much do you estimate in that is target price payments?

Mr. LYNG. We have this information by commodity. Outlays for wheat and wheat products, for example, were $1,475 million.

Senator ANDREWS. In loans or target prices?

Mr. LYNG. I don't know the target price outlays included in that figure.

Senator ANDREWS. So you don't know how much target prices will be in total?

Mr. LYNG. We would be glad to give you our estimate of target prices by commodity or deficiency payments by commodity. But we don't have the figures here with us.

Senator ANDREWS. Well, if you could provide for the record what you estimate target payments will be in the next 12 months, I would appreciate that very much. I think you are going to find that we are going to have cash outflow in the target prices, because the loan prices aren't high enough. It is going to approximate $1 billion or more, and I don't think anybody has taken that into account. I think the net impact on the budget is going to be horrible. And I recognize that you guys score a loan the same way you score target price payments, only the target price payment is gone and the loan is recoverable. So there is impact on the out years of the budget. As a member of both the Senate Budget Committee and the Appropriations Committee, I deal daily with what happens to interest rates today given those horrendous deficits in the out years. And I think a little bit more emphasis on loans and a lot less emphasis on target prices could give us a couple, $3 billion. We are talking a billion here and there, and this eventually adds up to some real money. We have to find it.

ESTIMATED DEFICIENCY PAYMENTS

If you could provide those figures, it might give us a little help. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you.

[The information follows:]

COMMODITY CREDIT CORPORATION

TOTAL ESTIMATED DEFICIENCY PAYMENTS, FISCAL YEAR 1983

MARCH 4, 1982 ESTIMATE

Item:	*Thousands*
Corn	$426,000
Grain sorghum	68,000
Barley	34,000
Total, feed grains	528,000
Wheat	325,000
Upland cotton	330,000
Rice	98,351
Total, deficiency payments	1,281,351

EXPORTS VERSUS CONSUMER PRICES

Senator COCHRAN. Senator Abdnor, do you have any questions?

Senator ABDNOR. Yes, thank you, Mr. Chairman. Sorry I was late.

I want to pursue the subject that Senator Andrews was discussing. Certainly, we all agree that foreign sales should become one of the solutions to our depressed agricultural situation. Why is it every time I read about a foreign sale, I also have to read at the bottom of the story that consumer prices will increase? Do you recall reading those things? Who puts those releases out? If it is the Department of Agriculture, is their biggest goal to make sure that the consumer prices don't go up at the expense of farm commodities, or what is it?

FARM INCOME

This is a very disturbing thing to me. When I see farm income today—if you put everything in 1967 dollars—it is going to be the lowest since the first day of recording income for farmers. That includes the 1930's. That is hard for me to believe. If you take farm income in the 1930's and put it in 1967 dollars, and take 1982 projects, $16 billion income, and put it in 1967 dollars you come up with $5.5 billion in income. That is lower even than the Depression. I remember a little about that.

It is very disturbing that we have to start apologizing when consumer prices might go up. Don't you think it is time we quit worrying about that and tried to do something for the farmer?

Mr. LYNG. The last thing we are worried about right now is consumer prices. I certainly agree with you, Senator. I think many times when we make an announcement of this kind, whoever is covering it for the media will ask the question, "Well, won't this cause consumer prices to go up?"

Senator ABDNOR. And the answer is they are going to have to if we are going to see the farmers survive. That would have made a better answer.

Mr. LYNG. Senator, we have said it many, many times. But you will have to forgive us if, when someone asks whether this large Public Law 480 sale to Egypt isn't going to have some bad effect on consumer prices, we have to answer no, it will not.

Senator ABDNOR. Well, I think we have to do a better job of telling that story. I don't know how much the consumer follows and realizes that out of every dollar spent for food, agriculture gets 39 cents, or something like that. But if wheat went up 25 cents a bushel, only about one-third of that would be additional cost because of the raise in commodity itself. Somewhere along the line we have to tell this story, and it has to come from you people. I think you ought to have people on the road to make sure the citizenry know about what low farm prices are doing.

I have developed some figures that show that in 1973, farmers had $1 net income for every $2 of debt. Last year it was $1 net income for $7 of debt. In 1982 it looks like it is going to be $1 in net income for $12 of debt. That is getting serious. I guess no one knows that better than you people, but I think we ought to get the story out.

I am holding a series of meetings on agriculture in my Joint Economic Subcommittee. I hope to have all the past Secretaries of Agriculture present for the first hearing just to see if sometimes they talk a little differently when they speak for themselves rather than a boss. I think somebody has to say something and get some publicity.

FISCAL YEAR 1982 EXPORT PROJECTIONS

Let me ask you about foreign sales that we are so concerned about. One of our hopes is of bringing farm prices up some degree. You are predicting a 2-percent increase for 1982. Did that come out of the Department? Will foreign sales of agricultural products increase this year by about 2 percent?

Mr. LYNG. I think that is the tonnage figure.

Senator ABDNOR. That is the volume.

Mr. LYNG. But, because of the prices, we don't expect the value of sales to be up at all, probably down a little.

Senator ABDNOR. Prices will be down. Are we talking about tonnage?

Mr. LYNG. Yes, the 2-percent increase you refer to would be tonnage.

AGRICULTURAL TRADE NEGOTIATIONS

Senator **Abdnor**. In all the trade negotiations that are going on between this country and Japan and all, is agriculture one of the main subjects in that or is it strictly centered around automobiles and steel? Do you know?

Mr. **Lyng**. No, Senator, the negotiations are very much concerned with agriculture. We have been involved in all of these discussions.

Senator **Abdnor**. Congress didn't get excited until this automobile business started, and that really brought on a strong sentiment of doing something about it. I think, in fact, that our great Ambassador Brock is working extremely hard on this. Does he work with you gentlemen?

Mr. **Lyng**. Very closely. Last week Mr. Brock's deputy, Ambassador Macdonald, was in Tokyo meeting with the Japanese, and Secretary Lodwick's deputy, Tom Hammer, was with him. You may recall that in December Secretary Haig, Ambassador Brock, and Secretary Block met with the European Community leaders.

Senator **Abdnor**. I get a little worried sometimes. I don't think Secretary Haig is so concerned about agriculture.

Mr. **Lyng**. He is concerned about agriculture, and I think increasingly so, Senator.

INTERNATIONAL TRADE BARRIERS

Senator **Abdnor**. I hope so. That is the place we have to start—making our own people realize the importance of it.

This 2-percent increase isn't enough. I think I read one of your speeches, Mr. Lodwick, where we haven't touched the Middle East and Africa for markets. Our sales are mostly Europe and Japan. Let me ask you this. If we didn't have all these trade barriers with Japan, how much more meat do you think we could sell?

Mr. **Lodwick**. Senator, we don't have the exact numbers, but there are a lot of estimates. Let me say that the potential is very strong, particularly for the kinds of beef we produce in the United States and most of all the finished issue beef. Evidence of this is in Anchorage, Alaska, or Chicago, Ill., or San Francisco or in Hawaii, when people from Japan depart from the United States and pick up these little packets of precut meat. The people in Japan want this kind of meat, and we want to make sure they have access to it.

Senator **Abdnor**. Well, $18 a pound, I can't believe they are doing that well in Japan. What makes that so hard?

Mr. **Lodwick**. The barriers that prevent our beef from coming in. We feel very successful that, as a result of Mr. Macdonald's and Mr. Hammer's efforts just last week, the Japanese have agreed to talk about increasing the quotas or maybe eliminating the quotas 6 months earlier than they had agreed to under the previous administration. At that time it was agreed that it would be the spring of 1983 before we would even talk about these things. Well, thanks to Mr. Macdonald, Mr. Hammer, and others we can begin talking about these things the first of October. We look forward to some constructive discussions.

Senator **Abdnor**. Maybe I should know this, but why is it they fight us on this? Why wouldn't they, as long as the sales are like they are in America, why wouldn't they want to see us sell something like beef that they can't compete with us anyway?

Mr. LODWICK. Well, Senator, understand that in Japan there are many, many producers of a rather select kind of beef, and they represent an important constituency in political organizations. So they want to either maintain their present position or back off slowly. We hope to point out to them the advantages of letting more of our beef come in without being subject to the quotas.

CORN SALES

Senator ABDNOR. I certainly hope so. You say corn sales are down. How much of that can be attributed to the barriers we have with the European Common Market? I guess we would be actually selling less grain to the European Common Market if it weren't for the fact we were selling more soybeans. Isn't it the soybeans that have been going up while the other sales in bushels have been going down? Didn't they try to put a tax sale several months ago on soybeans and oil, and Secretary Block was successful in preventing that from happening? But certainly we could have a lot more lucrative markets than the European Common Market.

Mr. LYNG. That is true, Senator. As a matter of fact, some of us are going over there again next week. We have a constant dialog with them. The European Community people are constantly meeting and reevaluating the situation. I wouldn't want to say we are optimistic of any immediate relief, but in the long term we have some real opportunities there and we are going to be very persistent in pursuing them.

On our loss of corn sales, one of the major changes there is the Polish situation. Poland has been one of our best outlets. Exports to Mexico in 1980 were quite good, but they had a good crop last year. That was another big change. Just this week we made some close analyses of our corn sales, which show that we face some real problems in expanding corn sales when we need them so badly right now.

Senator ABDNOR. It is a pretty strong statement. Sometimes I think we have to let Europe go by themselves and consider the people who live on the other side of the world. The developing countries need the things we have, and I think we ought to be cultivating those markets.

Mr. LYNG. Senator, we have to keep in mind that the European Community, the 10 European countries combined, purchased 9 billion dollars' worth of commodities from us last year.

ACREAGE REDUCTION PROGRAM

Senator ABDNOR. That is right. There are people and 10 times the population on the other side of the world. There is a great potential there. So maybe we better work harder in cultivating that. I don't know about Africa; I guess maybe their former ties with England cause that. Some way we better overcome that.

I don't have any quick answer for farm problems. But we must get rid of the surplus. That brings me to a question for Mr. Rank. We do have surpluses. How is the set-aside doing? What do you hear about it? Are we getting any kind of response?

Mr. **Rank**. Yes, Senator, each week we get a report. Last week we had one; we will have another report this week on what the participation is to date. They are getting more involved out there. The word is getting to the farmer. We are making every effort to see that it does. We are optimistic about the signup. It is going to be higher than anticipated.

Senator **Abdnor**. I don't think the Secretary helped that. Didn't I read that in the paper?

Senator **Andrews**. Who knows.

Senator **Abdnor**. I think he said he wasn't going to participate in this farm program. That really helps you out.

Mr. **Lyng**. Senator, let me explain. There seems to be some misunderstanding. Before he was confirmed, in order to avoid the possibility of conflict of interest, Secretary Block submitted a letter to the Senate Agriculture Committee stating that while he was Secretary of Agriculture he would not apply for any CCC loans, would not accept deficiency payments and would not participate in any other farm programs. He does not farm anything by himself. He is a partner in a farming operation in Illinois. For him to insist that his partners reduce their acreage while they still are unable to participate in deficiency payments or loans clearly puts him in a kind of catch-22 situation. Those of us who advise him recommended that he not make that kind of demand upon his partners, because it would be unfair to them.

Senator **Abdnor**. It is too bad, because Senator Andrews and I are both farmers, and people ask us all the time—at least I speak for myself—if I were running the program, I know I would help the program out. I don't know how you are finding it.

Senator **Andrews**. The point is, the public's right to know is protected. They know about Senator Abdnor's farm; they know about mine; they know about John Block's. Heck, they can tell me better how the wheat is growing on my place than I, and they know whether I participate in farm programs or not. I find that it is absurd when the Secretary comes out and says that it is not in the interest necessarily of the individual farmer but in the interest of the overall agricultural policy of this Nation that we cut back production, and then holds himself out where he will take advantage of the high prices the cutback nets without making the cutbacks.

Getting back to the cutback and the target prices, we all know the corn target price does not amount to much. In effect, by going on a technical deal, he is saying I am going to stay out of this program that I have said is good for the overall economy of the Nation. It doesn't sit right. I know where he is coming from, and I know the reasons that you gave him that advice. That is the thing I had to wrestle out with my conscience years ago. I felt if I am down here making farm policy and farm laws, then I better be stuck with whatever we come up with, good, bad or indifferent. Sometimes it is bad; mostly it is indifferent; occasionally, it happens to be good.

ACREAGE REDUCTION PROGRAM PARTICIPATION

As long as I interrupted my colleague from South Dakota, let me get back to this subject. I think you are making an awful mistake if you are looking at the set-aside program, and saying hey, they are signing up for the farm program. Just remember every farm organization out there and every farmer has more brains than the Department of Agriculture ever thought of. They are telling each other go sign up because then we hedge our bets. Because 3 months from now, when we get the corn in the ground, if it looks like it is a good thing we will stay in, if it looks like a bad thing we can drop out with no penalty. Isn't that in essence what is going on?

Mr. **Rank**. That is true, and that is the reason we want every farmer to make sure he signs up on April 16. That is the most important thing. Then he makes a decision prior to certification.

Senator **Andrews**. But to sit back and say, we are going to have a cut-back in acreage because the farmers are signing up doesn't mean a thing.

Mr. **Rank**. Not until the certification date.

Senator **Andrews**. So what we have to look at is the certification date. We can't sit back and say this program is getting accepted by the farmer, and if you do, you are following the wrong Pied Piper.

Sorry I interrupted.

Senator **Abdnor**. No problem. I am glad you brought that up. We are hearing the Administrator out there saying the signup is going quite well. I think it is partly because of what Senator Andrews points out. They all are overplanted on winter wheat; they might as well follow it through and see. If it is a great crop, they might drop out of the program. They have to look at all the angles, all possibilities.

Senator **Andrews**. Don't you think they are waiting to see whether the administration sweetens the pot. They are. They are signing up, and they are thinking you are not going to think they are going to set aside acreage and get nothing for it. They are going to take a look and see what you are doing. If you do nothing, they may not stay. They have seen administrations change before, Republicans as well as Democrats.

Senator **Abdnor**. You mean include all acreage?

Senator **Andrews**. They may do some changes.

Mr. **Lyng**. Senator, I assure you that will not be the case.

Senator **Andrews**. I am not talking senatorial talk, I am talking farm talk. There is a difference. But they are out there, and they are sitting and saying these guys can't think we are going to set aside 15 percent of our acreage for nothing; maybe they are going to sweeten the program; we will wait and see. If they sweeten the program later, we will take a second look and we will stay. If they don't, we can drop out. They are just buying an insurance policy when they are signing up.

FARM STORAGE FACILITY LOANS

Senator **Abdnor**. One last thing, what is the rationale behind suspending the farm facility loans? Is that the program that covers the grain bins?

Mr. **Rank**. Yes.

Senator **Abdnor**. If you are going to get people in these programs and all, they must have a decent interest loan. If they needed grain bins—I don't know if that is costly to the Government, and I have seen part of the grain bin people who offer a reasonable rate of interest well below the going rate. Maybe they charge more for the product.

Mr. LYNG. Senator, this is happening now. This week we met with some lending institutions who are also working with leasing people. In terms of the new tax legislation, the potential for farm storage facilities to be obtained at better rates than through Government programs seems to be very strong.

FARM STORAGE COSTS

Senator ABDNOR. I have a hard time offering that kind of a proposition, plus it just seems it is the wrong time to pull that program out when we, at the same time, are trying to encourage people to go into it. They have to have bins. It is true to say they can outbid, but it costs more. If they don't, we have a chance to encourage it. I think it is going to be tied together. If we are going to have programs, you have to have someplace to store your grain. I think it is just the wrong year to suspend that program. Maybe if the signup isn't what it should be, maybe we will encourage the people to reconsider. Is that a very costly program? Does it cost a lot?

Mr. LYNG. We allotted $50 million for farm storage facility loans, and by early February, $42 million had been committed. So we put a hold on the program to evaluate the situation. We may be reopening the program with certain qualifications for the $8 million that remains. But if we see a strong possibility that there will be ample private credit and private leasing available, then we probably will not expand that program.

Senator ABDNOR. I just know a few big groups that have that special program, because there are a lot of people in that business out in my area. They are already in trouble paying off their loan debts without offering some special program for buying grain bins from them. They couldn't afford to carry it off. I just think we better monitor this very carefully. The $8 million being put back in that program might not be enough. But I think it ties very, very closely to the set-aside. If you are going to go into the set-aside, you are going into it for one purpose. You are saying that farm prices aren't going to be worth a darn. If you want to cut back, you better get more for the product. If you haven't got a place to put it, and you can't afford to pay off the high interest rates, the cost on bins, there is not that much difference between raising everything you can and taking everything you can.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator.

Mr. Secretary, we have some other questions which we will submit to you in writing to clarify the request for the Commodity Credit Corporation. Also, Senator Kasten, who is a member of this subcommittee, has some questions which we will also submit for the record and ask that you respond to those for us.

Mr. LYNG. I would be happy to do so, Mr. Chairman.

ASCS CONSERVATION PROGRAMS

Senator COCHRAN. We appreciate your being here. We know you have other commitments. Thank you.

There are some other questions that we have regarding the Agricultural Stabilization and Conservation Service. We have statements from Mr. Rank and Secretary Lodwick which we will make a part of the record if that is all right with you.

We have some questions about the specific recommendations and requests that you are making. I am concerned about the proposal to consolidate four major conservation programs—the ACP program, emergency conservation, forestry incentives program and the water bank program—into a single cost-share program. The total amount appropriated for these four programs in fiscal year 1982 was $220,100,000, and the request you are submitting for all of these programs for fiscal year 1983 amounts to only $56 million. Do you believe the objectives of all these programs can be satisfied with this limited amount of money in the budget?

Mr. RANK. Senator, certainly $56 million will be less than last year, but considering the President's efforts to hold down spending, we felt this was a reasonable amount to request. You mentioned consolidation of the programs—ACP, FIP, water bank and emergency conservation—all into one program out in the States. One thing this proposal would do is allow us to reduce paperwork and make it less costly to keep records in Washington. The county offices would have one allocation. All the practices now available would continue to be available to the farmer, but we in Washington would not direct the funds to one type of practice or another. The States and counties themselves would determine how to spend the money in each State based on local conservation needs.

Senator COCHRAN. I have some additional questions that are more specific about how that would work out in practice, which I would like to submit to you, along with some other questions about those specific requests, and I will let you answer those for the record.

Mr. RANK. I would be glad to.

ASCS ADMINISTRATIVE EXPENSES

Senator COCHRAN. Another matter that is of concern is the request that reflects a decrease of $7.4 million for operating costs of your county office workload. Does this mean you are going to be dismissing a lot of employees in ASCS offices around the country?

Mr. RANK. Mr. Chairman, we have a workload system in ASCS to estimate the amount of work it takes to operate the programs. We feel that the funding and workload levels we have proposed are adequate to carry out our farm programs. We certainly are going to try to hold to a minimum the reduction in employment, but we know that there are some areas of the United States where, because of program changes, crop changes, and changes in cropping patterns, there will be a reduction in employment to some degree. However, we are going to maintain service to farmers in all areas.

Senator COCHRAN. Thank you.

Senator Andrews, do you have any questions?

SCS TECHNICAL ASSISTANCE

Senator **Andrews**. You are handling all these different functions of ASCS. What percentage cut did the Soil Conservation Service take on the water bank?

Mr. **Rank**. I couldn't answer that. The Soil Conservation Service would have to answer that.

Senator **Andrews**. But under program payments, don't you have program payment for cost-sharing for work you do?

Mr. **Rank**. We do have in ACP.

Senator **Andrews**. I know, but what percentage cut did you take in ASCS under ACP?

Mr. **Rank**. I guess I really don't follow you.

Senator **Andrews**. Well, the function of the ACP, one of the practices has to do with soil.

Mr. **Rank**. Yes, and SCS provides the technical assistance.

Senator **Andrews**. And the question is, what kind of a cut or what kind of an increase did you find in program desire by farmers for those programs that are handled by the Soil Conservation Service through technical advice?

Mr. **Rank**. Generally, the programs have been changed in recent years to emphasize less costly practices, such as nontillage, which produce more immediate benefits to farmers and take less technical work on the farm. These practices don't require the highly technical work involved in a structural-type practice, such as a dam. So there has been a reduction in the amount of technical work needed in some areas.

Senator **Andrews**. So you would say on the whole that programs that are funded by ACP have over the years resulted in the trend toward less need for SCS technical service?

Mr. **Rank**. Not necessarily, Senator.

Senator **Andrews**. Well, you can't have it both ways.

Mr. **Rank**. I was trying to state some examples. In other areas where you have water conservation practices that require highly technical work, the need for technical assistance has expanded.

Senator **Andrews**. I would suspect that. But overall, nationwide, what I am looking at are those programs under ACP practices which indicate where farm families want to go. Are those programs that need the technical services from SCS on the rise or on the decline nationwide?

TECHNICAL ASSISTANCE FROM ACP

Mr. **Rank**. Senator, I don't have that information with me, but we could provide it for you.

Senator **Andrews**. If you could provide that for the record, I would appreciate it.

[The information follows:]

ACP Technical Assistance

The portion of the ACP requiring SCS technical assistance has remained basically the same for the last few years. There is some fluctuation from year to year in the amount of technical assistance required from SCS, but we have not detected any true upward or downward trend.

WATER BANK PROGRAM

Senator **Andrews**. Payments for the water bank program are, of course, handled by your shop. Is the demand for entry in that program up, down or sideways?

Mr. **Rank**. Certainly, it has been a good program. A lot of 10-year-old contracts are coming up for renewal, and we expect they will be renewed. While interest in water bank practices is picking up in some areas, I feel that in most areas demand for the program has been pretty well taken care of in the last 10 years.

Senator **Andrews**. But again, are you finding any problem with the limitation between States as far as disposition of water bank funds?

Mr. **Rank**. I am not aware of any problem with the limitation.

Senator **Andrews**. Then why are you canceling the program?

Mr. **Rank**. We are not canceling it, Senator.

Senator **Andrews**. You zero-funded it.

Mr. **Rank**. No, sir, what we are trying to do is streamline our conservation and environmental protection programs. Water bank practices will still be available like any other practice within the State or county, and the county committee can make the determination whether to fund them.

Senator **Andrews**. When you request no funds for water bank and say it can be incorporated into a reduced ACP program—$190 million to $56 million—you have zero-funded it.

Thank you, Mr. Chairman.

Senator **Cochran**. Thank you.

Senator Abdnor.

Senator **Abdnor**. No further questions.

CONCLUDING REMARKS

Senator **Cochran**. Mr. Secretary, we understand you have some figures on wheat prices in the European Community for 1981.

Mr. **Lodwick**. Yes, we have them. For hard wheat it is $7 a bushel.

Senator **Abdnor**. Do you know if there is anything we in Congress can do to help, any legislation to help these foreign sales or to help you in your work?

Mr. **Lodwick**. Yes, Senator. I wanted to express our appreciation to you and your colleagues, as well as your counterparts in the House, for your cooperation in visiting with the European Community people and in impressing upon them the dire straits of American agriculture and the need to change some of their practices. With regard to legislation, there are two bills of importance to us pending in the House. One has to do with the Foreign Corrupt Practices Act and the other has to do with overseas trading corporations. If these were passed in substantially the same form as the Senate passed them it would certainly help us with our agricultural exports overseas.

Senator **Cochran**. We have already passed them here.

Senator **Abdnor**. Very good.

SUBMITTED QUESTIONS

Senator **Cochran**. Thank you very much for being with us.

The submitted questions, together with answers, will be inserted in the record at this point.

[The following questions were not asked at the hearing, but were submitted to the ASCS for response subsequent to the hearing:]

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

POLISH DEBT ISSUE

Question: What is the current status, of the Polish debt? What is the total in direct loans and in loan guarantees currently outstanding with Poland?

Answer: As of December 31, 1981, principal amounts outstanding are $540.2 million in direct loans and $840.4 million in loan guarantees.

Question: What is their loan status in both categories?

Answer: Under the Export Credit Sales Program, $217.3 million in direct loans due in fiscal years 1981 and 1982 was rescheduled to fiscal years 1986 through 1989. Under the rescheduling agreement, an additional $11.1 million in principal was to be paid when due, but has not been paid. Interest of $13.4 million on the rescheduled debt which was due on January 1, 1982, has not been paid. A total of $18.2 million in principal due CCC in January and February also has not been paid.

Under the guarantee programs, $142.9 million was paid to banks by CCC in fiscal years 1981 and 1982 and was rescheduled to fiscal years 1986 through 1989. An additional $15.7 million was paid by CCC in accordance with the rescheduling agreement. Poland was to repay this $15.7 million on the due dates specified in the original contracts but has not done so. Interest of $4.7 million on the rescheduled debt due on January 1, 1982, has not been paid. $154 thousand due one bank on February 1, 1982, was paid by CCC.

Question: What options were evaluated when deciding how to resolve the Polish debt situation?

Answer: Prior to the declaration of martial law, it was anticipated that the Polish debt situation would be resolved through a rescheduling between the Polish Government and creditor governments including the United States. After the declaration of martial law, the possibility of trying to seize Polish assets was considered, but rejected as unlikely to be productive from any point of view.

With respect to honoring CCC's guarantee, CCC initially intended to follow the program regulations and pay claims as they were filed. Several banks suggested to CCC that CCC should pay holders to collect and retain unguaranteed amounts due, without sharing collections with CCC. CCC rejected this suggestion because it would have diminished CCC's rights with no additional advantages to CCC.

U.S. banks informed CCC that other creditors of Poland might use the claims on CCC as an excuse to exercise cross-default clauses and declare Poland in default. Since cross defaults and a scramble for Polish assets in the West would have diminished the possibility of collecting from Poland, it was in the interest of CCC to avoid the danger of cross defaults. CCC offered to repurchase guarantee rights (Option A) rather than pay claims. The financial effect on CCC and holders of guarantees under the repurchase procedure is identical to the procedure in the GSM-101 and GSM-102 regulations. Options for honoring CCC liabilities under its guarantees were evaluated on the basis that CCC did not wish to ease pressure on Poland to pay and did not wish to increase its liabilities to holders of guarantees beyond that originally agreed when the guarantees were issued.

Question: Why is the Administration opposed to suggestions that the Polish loans be declared in default?

Answer: From CCC's point of view default simply means failure to pay on the due date. When a borrower fails to pay and the holder of the guarantee exercises its rights against CCC, then CCC will attempt to collect from the borrower. If CCC chose to reschedule the debt or alternatively to seize the accessible assets of Poland, it would be able to do so. Thus, from the point of view of CCC, it is meaningless whether or not the holder of CCC guarantees declares Poland to be in default, since it neither forces nor constrains CCC from taking action to collect the overdue debt.

Declaration of default might indicate that CCC wished to seize available Polish assets in the West and/or to influence other creditors to attempt to seize Polish assets. The result of attempts to seize assets would be a myriad of lawsuits and a substantial reduction in the possibility that Poland would make any payments in the near future on debt extended or guaranteed by CCC. Poland would be inconvenienced temporarily and might be forced to export through third parties. There might or might not be substantial shock waves affecting other countries, depending on the reaction of other Polish creditors and international lenders in general.

Although it is difficult to predict the wider-ranging effect on other countries and the U.S. relationship with its allies, the immediate effect on the credits owed by Poland would be to relieve Poland of the pressure to make payments on these debts. Poland apparently has been making some interest payments to U.S. banks, and some holders of CCC guarantees seem to feel confident enough of collection that they are willing to give up their rights to collect the 6 percent per annum interest guaranteed by CCC.

There seems to be no financial advantage to a declaration of default, since Poland has few accessible assets in the West and seems to be making some interest payments on its outstanding debts to the West. If a decision were made to declare default as a symbol of political opposition to events in Poland, the effect would be to relieve the pressure on Poland to pay its outstanding debts.

RE-ESTIMATES FOR CCC OUTLAYS

Question: I understand that the additional outlay needs may approach $9 billion -- roughly, $4 billion in fiscal year 1982, and $5 billion in fiscal year 1983. How and when does the Administration intend to request these additional funds?

Answer: To the extent that the revised estimates require additional budget authority, additional funding will be requested. As indicated earlier, we have a pending borrowing authority supplemental of $5 billion, as well as proposed language for FY 1983 included in the President's Budget which would provide a permanent indefinite appropriation to restore CCC losses. We are consulting with OMB on the timing of the borrowing authority request.

Question: Will your additional request be for funds to reimburse the Commodity Credit Corporation net realized losses, or to raise your authority to borrow to $25 billion?

Answer: We are requesting an increase in the permanent borrowing authority of the Commodity Credit Corporation from the currently available $20 billion to $25 billion. In addition, we are requesting a change in the 1983 appropriation language which would provide annual reimbursement to the Corporation for its net realized losses through a permanent indefinite appropriation.

Question: I understand your current requests to be: to raise the limit on borrowing authority to $25 billion in fiscal year 1982; and to reimburse the Commodity Credit Corporation in fiscal year 1983 for net realized losses from years past totalling approximately $3.8 billion.

What do your re-estimates do to the status of these requests? How and when will the requests be altered, if at all?

Answer: Because of the action of the Congress in February, which provided a $5 billion emergency supplemental, we will be altering our request by withdrawing the FY 1983 realized loss appropriation request shown in the President's Budget in the amount of $3,783,244 thousand. This $3,783,244 thousand was essentially for 1981 losses and these losses were restored by Congress in the emergency supplemental. We will also be stressing the need for the appropriation language proposed in the President's Budget to provide a permanent indefinite appropriation to restore CCC losses.

Question: Do you plan to request legislation of your authorizing committees in Congress to increase the $25 billion ceiling on your borrowing authority to $30 billion?

Answer: We have no such plan at this time. However in view of the revised CCC estimates, certainly that is an option to be considered. A better alternative would be action by the Congress to enact our proposed appropriation language which would provide a permanent indefinite appropriation for the annual restoration of CCC losses.

FOREIGN CREDIT COMPETITION

Question: I have been told on numerous occasions that credit competition for foreign suppliers is causing the United States to lose sales of both agricultural and industrial products.

How much have the Commodity Credit Corporation export credit programs contributed to sales of United States agricultural production?

Answer: Credit is a valuable service to many of our foreign customers. Obviously, such service can be more critical for increasing our exports during periods of heavy competition on the world market. The situation varies greatly from one country to another, but our people have generally taken the view that short-term credit, or other credit guarantees, can usually result in a gain in U.S. exports equal to about 50 percent of the quantity covered by credit.

That would be the gain in our trade with the recipient country. But we also need to consider what happens in third countries. When the U.S. takes a larger share of certain markets one result is that some of the displaced grain from other origins will show up and compete with us in third countries. Thus, our net gain in our trade with the country receiving credit is partly negated by a loss to greater competition elsewhere.

When both aspects are taken into account, we have a gain of roughly 30 to 40 percent of the amount covered by credit sales. In some special instances, it might be nearly 100 percent, and in other cases it might be very low.

Generally, however, if we finance 300,000 tons of exports with short-term credit, we can expect to increase the overall volume of exports of that commodity by roughly 100,000 tons.

Using this guideline, for every $2 billion worth of farm product exports covered by short-term credit guarantees, there is a net increase in U.S. agricultural exports of somewhere around $700 million.

Question: What is your assessment of the current competition faced by United States agriculture due to more favorable credit terms offered for foreign countries?

Answer: There definitely has been a significant increase in competition faced by United States agriculture due to more favorable credit terms offered by foreign countries. France's aggressive use of COFACE credit in East European and North African countries for wheat has had a negative impact on U.S. exports to those areas. Credit competition from Canada and Australia has generally been unchanged from earlier levels.

Question: Would you cite some examples?

Answer: During the past year France has provided 2-year credit to Egypt for 600,000 tons of wheat and flour at 9 to 11 percent interest, and to Morocco for 800,000 tons of grain with the same terms.

Question: What does USDA have programmed for credit sales for the remainder of this year and 1983?

Answer: In FY 1982 the Department set a ceiling of $2.5 billion for the Export Credit Guarantee Program (GSM-102). To date, guarantee coverage has been made available to U.S. exporters and importers in 15 countries. The coverage provided to date is slightly more than $1.8 billion. A country/guarantee coverage breakdown is provided in the table below.

The guarantee authorization ceiling for FY 1983 is also set at $2.5 billion. Programing for FY 1983 is in the planning stage at this time. The information follows:

EXPORT CREDIT GUARANTEE PROGRAM (GSM-102)
FISCAL 1982 GUARANTEES APPROVED TO DATE

Country	Guarantees Approved ($ in millions)
Argentina	2.0
Brazil	285.0
Costa Rica	12.0
Dominican Republic	66.3
El Salvador	19.5
Indonesia	15.0
Jamaica	36.0
Korea	590.0
Morocco	200.0
Nigeria	31.6
Pakistan	60.0
Panama	7.2
Peru	150.0
Portugal	350.0
Uruguay	2.0
Total	1,826.6

Question: Could we expand our exports with an expanded credit program?

Answer: There are some possibilities of expanding our exports with expanded credit. We have received detailed suggestions along this line from farm and export industry groups, including country-by-country lists indicating where our trade can be expanded. Our own staff people also surveyed the possibilities and we have obtained input from overseas offices.

As for the existing short-term credit guarantee program, an all-out effort is already being made to utilize this program wherever advisable, and authority for extending additional guarantees is adequate at this time. For any particular type of credit, the demand is, of course, not unlimited. For example, because of the current high interest rates, our existing budgetary authority for 3-year credit comes close to covering all of the current needs of foreign countries, or at least those countries for which we are willing to guarantee the credit, because of their repayment potential. So we are not sure that more short-term credit with current high interest rates would complement our existing program or serve a useful purpose in some markets.

Beyond that, however, it is credit with more liberal terms that offers the main potential for expanding our agricultural exports in the long run. For example, some of the strong foreign demand of recent years resulted from our emphasis on liberal credit arrangements in earlier years. During 1955-70, about 44 percent of our wheat exports were covered by Title I of P.L. 480, whereas in the past fiscal year the share was only about 5 percent.

New programs with more liberal terms, such as a longer period of repayment or reduced interest rates, could expand our exports significantly, but they would require larger budgetary outlays (or at least larger budgetary exposure). Such programs would fall somewhere between the traditional short-term credit programs and the P.L. 480-

type credit programs and would need to be directed specifically at expanding utilization in recipient countries. Credit that is used to displace supplies from competing exporting countries in a particular recipient country, only to find the competing country's commodity show up in still another market, is not very effective. A credit war with other countries would not be productive. So any new, more liberal credit program would need to be carefully structured to expand trade and increase utilization in the recipient countries. We are continuing to examine all of these possibilities and to weigh them against other considerations, such as budgetary constraints.

FARM STORAGE FACILITY LOANS

Question: I understand USDA suspended issuing farm storage facility loans in February when loans approached the $50 million ceiling. Who sets the ceiling?

Answer: The January 1981 Budget contained an FY 1982 estimate of $150 million for new storage facility loans. In order to achieve FY 1982 outlay reductions, the Administration's March 1981 Budget Amendments proposed a program level for new loans of $50 million.

The Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35, August 13, 1981) made the program discretionary and showed a reduction of $100 million for facility loans in FY 1982. This reflected the change from the $150 million in the January Budget to the $50 million in the March Budget. Hence, we have been operating the program under the assumption that new loans made during FY 1982 shall not exceed $50 million.

The Food and Agriculture Act of 1981 mandated a program in areas where the Secretary determines a storage deficiency. The President's FY 1983 Budget shows $95 million in outlays for FY 1982. This $95 million includes $50 million in new loans and $45 million in FY 1981 approvals.

Question: Do you plan to reimplement this loan program any time soon?

Answer: The program will be reopened to process those applications received on or before February 8. Concurrent with this, the Secretary has called a meeting of all major bin manufacturers and representatives of the financial community to review the potential for private industry meeting farmers' needs for farm storage facilities.

Question: How does a farmer apply for one of these loans?

Answer: An application and a financial statement are filed in the ASCS County Office. The farmer certifies production of eligible crops and existing storage capacity on the farm in the application. The County Committee considers the application by comparing the cost and capacity of the proposed facility to the producer's need and ability to repay.

Question: What is the dollar amount of outstanding farm storage facility loans?

Answer: As of February 28, 1982, the actual amount of outstanding farm storage facility loans was $1,310,544,817.

AGRICULTURAL CONSERVATION PROGRAM

Question: How many participants received Agricultural Conservation Program cost-share funds in the past year?

Answer: During the 1981 fiscal year, 237,289 participants received ACP cost-share funds.

Question: If your proposal is accepted by Congress, how many farmers would receive Agricultural Conservation Program cost-share funds?

Answer: Assuming that $45 million of the $56 million would be used for ACP type practices, approximately 55,000 participants would receive ACP cost-share funds for soil and water conservation practices.

Question: Would this reduction not have an adverse impact on our total conservation effort?

Answer: The consolidated program we are proposing will enable us to achieve more conservation per dollar. County committees will have the flexibility to choose any of the practices currently available to them under the existing four programs in order to solve the most critical local conservation problems. By applying funds to the highest priority needs, we will be able to increase the tons of soil saved per conservation dollar. Thus we will minimize the impact of the funding reduction while we contribute to the effort to control Federal spending.

Question: With the tremendous reduction, do you propose changing the manner in which funds would be allocated?

Answer: At the National level we will establish for each State a single allocation. It will be based upon current formulas for forestry incentives and wetlands protection. The formula for allocating the portion for soil and water conservation will be based on the National Resource Inventory and our evaluation data. It will recognize the massive changes in farming and ranching that have taken place in the past few years.

Question: What would be the effect of the proposed reduction on employment levels in the Agricultural Stabilization and Conservation Service? The Soil Conservation Service?

Answer: In ASCS the employment level reduction would equate to a reduction of 68 staff years in FY 1983. The employment level reduction in SCS for ASCS cost-sharing programs would equate to 283 staff years.

Question: How would the proposed cuts be distributed by State?

Answer: At the National level $6 million will be reserved for ECP. For allocation purposes $2 million will be targeted to WBP and $3 million to FIP. Traditional WBP and FIP States will receive a proportionate share of these funds, based on current allocation formulas, as a part of their overall allocation.

In addition, $450 thousand will be used for Forest Service technical assistance, $250 thousand targeted to salinity, and $300 thousand held in reserve at the national level for contingencies.

The remaining $44 million will be allocated to ACP States based on current allocation procedures, updated to include the most recent SCS National Resource Inventory data.

Employment levels would be reduced, by State, consistent with the reduction in workload.

Question: Which conservation measures would continue to be cost shared and how do these relate to the Resource Conservation Act goals announced by the Secretary?

Answer: All practices and programs currently available will remain in effect. Counties would continue to set priorities to solve their most critical conservation problems. We will encourage County ASC Committees to use cost-effective measures such as no-till to solve these problems. Top priority will go to erosion control as specified in the RCA.

EMERGENCY CONSERVATION PROGRAM

Question: How much money was spent on the Emergency Conservation Program in fiscal year 1981; how much so far in fiscal year 1982?

Answer: In FY 1981, $15,700,695 was spent for ECP. As of February 28, $2,099,706 has been spent for ECP in FY 1982.

Question: Is it not difficult to predict the amount of funds needed for the Emergency Conservation Program?

Answer: Yes, because it is difficult to predict the level of disasters or the corresponding damage to farmland that may occur in a given fiscal year.

Question: Did you have an unobligated balance to carry forward from fiscal year 1981?

Answer: Yes, we had an unobligated balance of $23,120,742 carried forward from fiscal year 1981.

Question: If Congress does not go along with your proposal to consolidate, how much would be needed for the Emergency Conservation Program for fiscal year 1983?

Answer: We believe that $6 million would be sufficient given the current unallocated balance of $25,340,824. However, if ECP funds should be exhausted due to major disasters in fiscal year 1983, it would be necessary to request a supplemental.

DAIRY INDEMNITY PROGRAM

Question: Although the 1981 Farm Bill extended the Dairy Indemnity Program through September 30, 1985, you have not requested funding for this program in fiscal year 1983. Please justify this decrease.

Answer: Due to budget and fiscal restraints, funding for this discretionary and relatively low priority program was not requested for FY 1983. In FY 1981, only $42,231 was paid to 15 dairy farmers.

WATER BANK

Question: Water Bank contracts are for 10 years. Have any of the agreements expired?

Answer: The 520 agreements entered into in 1972 expired December 13, 1981.

Question: Have any been renewed?

Answer: A review is being made of 1972 agreements to determine which ones should be renewed. Instructions for renewing agreements were sent to the States on February 17, 1982.

Question: How many applications do you have pending for new contracts?

Answer: As of February 28, 1982, we had 164 requests which have been referred to SCS for technical determination but have not yet been approved.

Question: How many new contracts will be entered into in fiscal year 1982?

Answer: Of the $8,510,000 allocated to States in FY 1982, about $1.4 million will be used to adjust rates of 1978 agreements, and about $5 million will be used to renew 1972 agreements. This leaves a balance of $2,110,000 for new agreements in 1982, which should provide approximately 150 new contracts.

Question: If the Water Bank Program is consolidated with the Agricultural Conservation Program, how many contracts and agreements would you estimate for fiscal year 1983?

Answer: Under the consolidated program, we will allocate $2 million to WBP States. No decision yet has been made on whether the $2 million will be used for renewing 1973 agreements, signing new agreements or adjusting 1979 agreements payment rates.

COUNTY OFFICE WORKLOAD

Question: You [illegible] out in your statement that USDA is proposing one appropriation to carry out conservation practices under four major conservation programs. Under this proposal, your State and County Committees will assess local problems and establish priorities. Yet, you have requested a decrease of $7.4 million for operating costs of your County Office workload.

How do you explain this?

Answer: The $7.4 million reduction for County Office workload costs primarily relates to the elimination of disaster provisions in areas where crop insurance is available. Also, elimination of the Emergency Feed Program reduces workload costs. Of the total reduction of 837 workyears, only 68 workyears relate to the consolidation of conservation programs under one appropriation.

COUNTY EMPLOYEES/FEDERAL CROP INSURANCE

Question: What is the County Office workload associated with Federal Crop Insurance? Please provide work-years and dollars.

What role do Agricultural Stabilization and Conservation Service employees play?

Answer: Our budget proposal for FY 1983 anticipates County Offices will expend 621 workyears at a cost of $12,590,000 for reimbursable workload associated with the Federal Crop Insurance Act of 1980. Of this amount, 485 workyears costing $9,828,000 will be performed for FCIC, and 136 workyears costing $2,762,000 will be performed for reinsurance companies. This workload is based on the July 1981 Memorandum of Understanding between FCIC and ASCS. The agreement provides that ASCS County Offices will serve as producer contact points for FCIC information; accumulate yield data; determine acreages; promote, sell and service FCIC's pilot prevented planting insurance; promote, sell and service insurance in areas without full-service FCIC agents; and provide administrative support services for FCIC District Directors.

QUESTIONS SUBMITTED BY SENATOR KASTEN

LOANS TO ROMANIA

Question: According to newspaper reports, the Department of Agriculture tried last month to get presidential approval for more farm credits for Romania. Fortunately, the president vetoed that request, stating that, if Romania can't pay its bills now, we shouldn't continue to grant it credits. What rationale did you have for advocating these additional credits, when it's clear that Romania has fallen behind by as much as $1 billion in payments to its Western creditors, and has actually suspended payments until its outstanding debt is rescheduled?

Answer: The Romanian request for $200 million in CCC Export Credit Guarantees was under consideration for several months. There was clear understanding that Romania was about to falter in meeting its obligations to commercial banks, particularly to European banks. Romanian debt service obligations were particularly critical for the succeeding two years.

USDA did not have more than a passing market interest in Romanian sales; however, the Romanians, export companies, and the Department of State were actively urging the approval of some financing help for Romania to buy corn and soybean meal. The $65.0 million denied by President Reagan on February 9, 1982 was regarded as a minimal risk, considering Romania's constant need to maintain a creditworthy rating in the U.S. market.

Romania faces both short- and long-term problems. If only short-term problems were involved, the Romanian situation could have been resolved by rolling over old debts. However, its long-term problems made debt rescheduling necessary. Romania's short-term problems can be more easily overcome than Poland's, which are compounded by the major disruptions that are racking the country.

Question: The official U.S. reaction to the Romanian loan situation has been very different from our reaction to the Polish crisis. The president vetoed the Agriculture Department request for additional loans to Romania, and when Romania fell $5.8 million behind in its payments, the State Department demanded that Romania pay up immediately; and it did. What, in your opinion, would account for this difference in treatment?

Answer: Poland's holdings of foreign exchange have declined in the last three years because of interest and, to a lesser degree, principal payments made to about 16 western creditors. The Polish economy has failed to generate sufficient new income. The United States, as a major creditor, joined the other countries in rescheduling payments due to the government sector. An accord was signed on April 27, 1981 to authorize this action.

The U.S. Government adopted a firmer response to the Romanian failure to meet payments to U.S. firms and banks, although it was well known that Romania was making overtures to commercial banks to work out a rescheduling arrangement. It has been our belief that if these measures are properly addressed, Romania can meet its obligations to governmental creditors.

POLISH DEBT

Question: Last Friday's Wall Street Journal reported that only one bank, the Bank of Boston International in New York, has accepted payment from the CCC as reimbursement for loan payments missed by Poland. There is no question that Poland is technically in default, but bankers seem to be worried that accepting the CCC payments now might be grounds for a future claim that legal default exists. Moreover, the banks would be required to give up some or all of their rights to negotiate with Poland on the collection or rescheduling of this outstanding debt. Can you comment on this situation?

Answer: In the last few days, some of the major participants in CCC's program for Poland have accepted CCC's offer to repurchase their guarantee rights. We suspect that these holders of CCC guarantees delayed accepting CCC's offer out of a recognition that either option offered might result in substantial losses. In addition, U.S. banks hoped initially that CCC might offer them more attractive terms.

Neither CCC's guarantees nor the repurchase offer covered all of the risk for U.S. banks. Under normal program regulations, banks could not collect the entire amount -- the principal plus the 6 percent guaranteed interest from CCC as well as the unguaranteed interest from Poland. If they claimed guaranteed amounts originally due from Poland on a given date, they would be required to assign to CCC the right to collect the unguaranteed amount also due on that date. Any partial collections from Poland would be forwarded to CCC for pro rata distribution and the bulk of such partial payments would be applied to the principal guaranteed by CCC.

The repurchase offer gave banks a choice between the normal procedure described above, Option A, and an alternative, Option B. Option B would permit banks to collect interest without sharing it with CCC. In exchange, CCC's obligation to pay the 6 percent per annum guaranteed interest would be forgiven. After accepting CCC's offer, banks may choose whichever option they prefer for each overdue payment owed by Poland. A number of the banks that sent initial notices of election to CCC have chosen Option B, retaining the right to collect interest separately and decreasing the guaranteed amount to be collected from CCC.

We suspect that banks delayed in accepting CCC's offer because either option could have a major effect on their profitability. We do not feel that concern about cross defaults was a major factor, since the repurchase procedure decreased substantially the possibility that third parties would declare Poland in default on the basis of CCC's payments.

Question: Several Polish experts have testified before my Foreign Operations Appropriations Subcommittee that the Soviet Union faces a complete collapse of the Polish economy within a year. The Soviet Union itself is undergoing a short-run cashflow crisis, made worse by the dropping price of oil worldwide. Do you really believe that Poland will make even a small amount of its payments, and on what do you base that analysis?

Answer: Poland has been using CCC short-term credit for the last 20 years. During that extended period, the Polish payment performance has been punctual and complete. An economic goal of that country was to strengthen business ties with the U.S. market for two-way trade. This objective appears valid for the present and future if socialist dogma will allow for a degree of continued contact with the United States.

Poland is currently meeting some interest and principal payments due to U.S. banks. They are striving to hold some vestige of credit-worthiness with the American banking community and thus clear the way for rescheduling Polish obligations owed to U.S. commercial banks.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

CCC BORROWING AUTHORITY

Question: The Congress has provided $20 billion worth of working capital to the CCC to carry out its programs. The Administration has pending a request for an additional $5 billion to fully capitalize the CCC borrowing authority. Does the Administration still support this request?

Answer: Based on the revised CCC estimates made available to the committee on March 5, the increase in borrowing authority is essential. This $5 billion increase in borrowing authority had been recommended by the Administration for fiscal year 1982, but the Congress, with our concurrence, chose to provide an appropriation for unreimbursed losses instead. Our pending proposal to increase the borrowing authority remains in force, but we are consulting with OMB on the timing of the increase.

Question: What is the current rate of expenditure of CCC funds and when will the additional borrowing authority be needed?

Answer: FY 1982 actual CCC net expenditures through February 28, 1982, were $9,217.3 million. As of February 28, 1982, available borrowing authority was $4,891.9 million. These net expenditures reflect the seasonality of CCC price support activities, particularly for commodity loans and deficiency payments. The peak in overall loan demand occurred during December and January. Commodity loans of $2.5 billion were made in December and $2.9 billion in January. The peak in deficiency payments was reached in February and March, when cotton and rice deficiency payments of approximately $502 million were made.

The overall level of loan demand started to decline in February, and the decline should continue through the early summer. Loan redemption should increase between now and late summer. However, we have recently extended some loans in order to strengthen farm prices this spring, so the redemptions may be somewhat less than they would otherwise have been. The additional borrowing authority for FY 1983 will be needed by December 1982, since loan demand historically peaks in December.

CCC ACTIVITIES

Question: I would appreciate an accounting of the total dollars currently committed under existing CCC activities, i.e., export credit activities, current commodity inventories (broken down by commodity), price support loan program by commodity, farm storage facility loan program, etc.

Answer: The information follows:

COMMODITY CREDIT CORPORATION

Analysis of Borrowing Authority in Use as of September 30, 1981 (Actual) vs. February 28, 1982 (Estimated)

Item	September 30, 1981 (Actual)	February 28, 1982 (Estimated)
	($ in millions)	
INVESTMENT IN:		
Commodity Loans Outstanding (see following table for detail)	3,789.7	10,997.2
(regular)	(2,104.5)	(5,888.3)
(reserve)	(1,685.2)	(5,108.9)
Commodity Inventories (see following table for detail)	3,726.8	4,002.4
Storage Facility Loans Outstanding	1,403.0	1,310.5
Export Credit Sales Loans Outstanding	966.8	801.1
Funds owed CCC for Wool Act Program and Transfers to APHIS	62.7	17.4
All Other (Interest due CCC, Cash, and Other Assets and Receivables)	938.3	1,530.4
Subtotal	10,887.3	18,659.0
UNREIMBURSED REALIZED LOSSES:		
1980 Losses	2,295.9	---
1981 Losses	3,530.6	---
1982 Losses	---	1,038.5
Subtotal	5,826.5	1,038.5
TOTAL, ABOVE ITEMS	16,713.8	19,697.5
Less: Financing other than by use of Borrowing Authority:		
Capital Stock	-100.0	-100.0
Unexpended Balance of P.L. 480 Funds	-140.7	-978.3
Accrued Interest on Treasury Borrowings	-1,257.3	-1,975.7
Trust and Deposit Liabilities, and All Other Liabilities	-842.0	-1,535.4
TOTAL, ABOVE 4 ITEMS	-2,340.0	-4,589.4
Total Borrowing Authority in Use	14,373.8	15,108.1
Total Borrowing Authority Available	5,626.2	4,891.9

STATUS OF CCC INVESTMENT IN COMMODITY LOANS, STORAGE FACILITY LOANS, AND EXPORT CREDIT LOANS

(millions of dollars)

Item	Loans Outstanding September 30, 1981	Loans Outstanding February 28, 1982
	Actual	Estimated
Corn	629.3	4,783.9
(regular)	(228.5)	(1,776.1)
(reserve)	(400.8)	(3,007.8)
Grain sorghum	96.1	630.2
(regular)	(96.0)	(126.9)
(reserve)	(.1)	(503.3)
Barley	72.5	103.8
(regular)	(53.9)	(68.9)
(reserve)	(18.6)	(34.9)
Oats	7.7	8.1
(regular)	(7.7)	(8.1)
(reserve)	(--)	(--)
Total feed grains	805.6	5,526.0
(regular)	(386.1)	(1,980.0)
(reserve)	(419.5)	(3,546.0)
Wheat	1,871.2	2,144.1
(regular)	(605.5)	(581.2)
(reserve)	(1,265.7)	(1,562.9)
Rice	46.7	200.0
Soybeans	192.6	1,033.3
Cotton, Upland	66.4	1,154.7
Peanuts	12.8	65.5
Tobacco	763.8	795.5
Other Commodities	30.6	78.1
TOTAL COMMODITY LOANS	3,789.7	10,997.2
(regular)	(2,104.5)	(5,888.3)
(reserve)	(1,685.2)	(5,108.9)
Storage Facility Loans	1,403.0	1,310.5
Export Credit Loans	966.8	801.1
TOTAL ALL LOANS	6,159.5	13,108.8

STATUS OF CCC INVESTMENT IN INVENTORIES

(millions of dollars)

Item	Inventory Outstanding September 30, 1981	Inventory Outstanding February 28, 1982	
	Actual	(Mil. Qty.)	Estimated
Corn....................	$555.2	259.3 bu	$604.9
Grain sorghum...........	79.0	38.2 bu	78.9
Barley..................	5.3	3.3 bu	5.3
Oats....................	1.8	1.7 bu	1.8
Total feed grains......	(641.3)	(302.5)bu	(690.9)
Wheat...................	678.7	190.2 bu	675.5
Dairy products			
Butter................	708.9	490.7 lb	705.9
Cheese................	887.1	673.3 lb	971.3
Milk, dried...........	799.3	1,026.0 lb	938.1
Mozzarella............	.3	.1 lb	.1
Total dairy..........	(2,395.6)	(2,190.1)lb	(2,615.4)
All other...............	11.2	xxx	20.6
TOTAL INVENTORY.........	$3,726.8	xxx	$4,002.4

STORAGE FACILITIES

Question: What is the current status of the farm storage facility loan program?

Answer: The farm storage facility loan program will be reopened to process applications that were received on or before February 8, 1982. The Secretary has also called a meeting of all major bin manufacturers as well as members of the financial community to review the potential for private industry meeting the needs of storage facility requirements.

Question: What has been done to survey for storage deficient areas and when will this data be available? If preliminary data is available, where are the areas the Department considers to be storage deficient?

Answer: Storage capacity utilization was estimated as of January 1, 1981, and January 1, 1982, for farm plus off-farm storage. Based upon the above analysis, there are no storage deficient areas at this time.

Question: Please describe the procedures used to determine areas to be storage deficient.

Answer: Estimates of storage capacity, stocks and capacity utilization were derived for both farm and off-farm locations. These estimates were based on secondary data on a State by State basis. An estimate of total capacity utilization was derived by dividing the quantity of capacity into the quantity of stocks.

EXPORT CREDIT PROGRAM

Question: Please provide a list of countries which are currently participating in the CCC export credit programs and which have debts owed directly to CCC or which the CCC has guaranteed.

Answer: The information follows:

COMMODITY CREDIT CORPORATION

Export Credit Sales Program
Export Credit Guarantee Programs

PRINCIPAL DUE AS OF DECEMBER 31, 1981

Country	Export Credit	Export Guarantees
	(In Thousands)	
Brazil	$ 37,732	$ 213,343
Costa Rica		2,867
Cyprus	1,417	
Dominican Republic	12,877	72,398
El Salvador		13,823
Greece	36,391	
Honduras		1,001
Hungary	2,553	
Indonesia	729	
Ireland	1	
Israel - Intermediate	17,510	
Jamaica		17,436
Korea	69,869	520,161
Morocco		53,395
Pakistan		22,498
Peru	77,305	150,532
Regular	(45,998)	
Reschedule	(31,307)	
Poland	540,171	840,355
Regular	(322,860)	
Reschedule	(217,311)	
Portugal	51,148	143,760
Romania	41,524	48,981
Sri Lanka		6,299
Spain - Intermediate	661	
Sudan		39,296
Thailand	6,454	32,496
Yugoslavia	2,378	18,885
Zaire - Reschedule	13,696	
Total	$ 912,416	$2,197,526

SALARIES AND EXPENSES

Question: I note that even though the request for funds to support program activities not associated with CCC activities has decreased, the request for appropriated dollars to support salaries and expenses has increased.

Please provide an explanation of why this has happened.

Answer: The FY 1983 request for a direct appropriation of $62,046,000 for salaries and expenses is only slightly higher than the FY 1982 level of $62,000,000.

The FY 1983 request reflects a decrease of 68 staff years for County Office workload due to the consolidation of conservation programs. However, this decrease is offset by increases for full-year funding of last year's pay raises and inflationary costs for rents, utilities, and communications in support of continuing workload activities funded by direct appropriation.

Question: The explanatory notes indicate savings have been achieved through operating efficiencies in the County Offices. Please provide some examples of these efficiencies.

Answer: Workload efficiencies have been achieved through the use of aerial observation and digital planimeters for monitoring program compliance, which has substantially reduced travel. Elimination of vendor purchase orders for conservation materials and supplies (CMS) has reduced paperwork, recordkeeping and reporting requirements. Our proposed consolidation of conservation cost-share programs under a single appropriation would reduce paperwork and streamline the conservation cost-share programs, including recordkeeping and reporting.

COUNTY OFFICES

Question: Are there currently any plans under consideration to consolidate County Offices? If so, where are these consolidations being considered?

Answer: There is no national policy directing State Offices to consolidate County Offices. However, State ASC Committees have found it necessary to consider consolidating some County Offices where administrative costs can be reduced without reducing services to farmers. All States are giving consideration to good administration of ASCS office operations.

CONSERVATION PROGRAM DELIVERY SYSTEM

Question: Mr. Rank's statement indicates that under the proposed budget you will be able to achieve more conservation effort with every dollar spent.

What specifically will be done to improve the efficiency of the delivery system to achieve this?

Answer: Every effort will be made in FY 1983 to get the most conservation for the dollar. We will use the latest National Resource Inventory data compiled by SCS to target our allocations to areas with the greatest need. We will expand the ACP evaluation to provide our county committees with the tools needed to target within the county. Current evaluation data from the counties included in the 1975-78 ACP evaluation show an increase in efficiency of 150 percent. Average soil saved increased from 6.5 tons per acre to 9.75 tons per acre in 1981.

QUESTIONS SUBMITTED BY SENATOR STENNIS

FORESTRY INCENTIVES PROGRAM

Question: What assurances are there if any that the Forestry Incentives Program will continue to be funded and operated as part of a general agricultural conservation program?

Answer: The Forestry Incentives Program has a wide acceptance among our County ASC Committees. While we cannot predict exactly how they will utilize funds for each program, we are confident that FIP will receive equitable treatment.

Question: How much of the Agricultural Conservation Program budget would be devoted to the Forestry Incentives Program?

Answer: In FY 1983, $3 million will be allocated to States and Counties for FIP using the current allocation formula.

Question: Is this enough to insure that our reforestation needs are met?

Answer: Given the need for budget restraint, $3 million is an appropriate amount. The FY 1983 program will encourage State and County Committees to address the most critical reforestation problems through increased targeting of funds to priority needs.

QUESTIONS SUBMITTED BY SENATOR LEAHY

ACP FUELWOOD PROJECTS

Question: In 1979 the Agricultural Stabilization and Conservation Service initiated the Special Fuelwood Access Road Project in three Vermont counties. The Service subsequently expanded the program to the entire state of Vermont and several other northeastern states. Vermont's project consists of the construction of forest management access roads on a cost-sharing basis and of tree-stand improvement.

The objective of the project is to provide access to forest stands that were previously inaccessible in order to permit harvesting for fuelwood. This serves the dual purpose of reducing Vermont's dependence on imported energy and of improving the productivity of forest lands which were not receiving any management at all.

What do you estimate would be the cost to continue this program in Vermont for fiscal 1983? For the other states which are currently participating?

Answer: Approximately $185,000 would be the cost of continuing the Fuelwood Project in Vermont. Approximately $500,000 would be needed to maintain current funding levels in all six fuelwood States.

Question: Do you plan to continue funding for this project in Vermont for fiscal 1983? If not, for what reasons?

Answer: We have made no changes in the fuelwood program. The States and counties will continue to have those special practices available to them under the regular ACP. However, in FY 1982 and 1983 any new funding for these practices must come from the State's regular ACP allocation. Allocations to States are based on the Conservation Needs Inventory which includes forestry needs. Vermont, for example, received 51.6 percent of its funds based on forestry needs, yet expended only 3.2 percent of its State allocation on forestry in FY 1981.

SOIL CONSERVATION SERVICE

STATEMENTS OF:

JOHN B. CROWELL, ASSISTANT SECRETARY, NATURAL RESOURCES AND ENVIRONMENT

NORMAN A. BERG, CHIEF, SOIL CONSERVATION SERVICE

ACCOMPANIED BY:

DAVID G. UNGER, ASSOCIATE CHIEF, SOIL CONSERVATION SERVICE

WILLIAM E. GARDNER, JR., DIRECTOR, BUDGET FORMULATION, SOIL CONSERVATION SERVICE

ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

ACTIVITIES OF SCS

Senator COCHRAN. Our next witnesses are here to discuss the 1983 budget request for the Soil Conservation Service.

The Soil Conservation Service is responsible for administering a wide range of technical programs that are designed to improve and conserve soil and water resources, and thus improve agriculture. The Soil Conservation Service also conducts activities which aid in the reduction of damage caused by flooding and sedimentation. It develops and carries out a national soil and water conservation program in cooperation with landowners and operators, State and local governments, and regional and community planning and resource groups. Its technical assistance programs are delivered to these partners in conservation through 3,000 conservation districts.

We welcome to the subcommittee this morning John Crowell, Assistant Secretary, Natural Resources and Environment; Mr. Norman A. Berg, Chief of the Soil Conservation Service; David G. Unger, Associate Chief of the Soil Conservation Service; William Gardner, Jr., Director of Budget Formulation for the Soil Conservation Service; and our friend Bob Sherman, Deputy Budget Officer of the Department of Agriculture.

PREPARED STATEMENTS AND BIOGRAPHIES

We have statements from Mr. Crowell and Mr. Berg. We would like to incorporate them at this point in the hearing record, along with your biographies.

[The statements and biographies follow:]

PREPARED STATEMENT OF JOHN B. CROWELL, JR.
ASSISTANT SECRETARY
NATURAL RESOURCES AND ENVIRONMENT

Mr. Chairman and members of the Committee, I am pleased to appear before you to support the 1983 budget request for the Soil Conservation Service. Mr. Norman A. Berg, Chief of the Soil Conservation Service, and some of his key staff are here with me. Mr. Berg has appeared before this committee many times over the years. He will present a statement in support of the budget and he and his staff will help me respond to your questions.

Mr. Chairman, the past year has been for me a deeply rewarding one. It has given me a unique opportunity to be present at what might be a "crossroads" for soil and water conservation policy and programs. Much good work has been done over the last 47 years. Yet we continue to experience unacceptable levels of soil losses, particularly in certain regions of the country. The decisions made now will likely have deep and lasting effects on America's future capacity to produce food and fiber for domestic and export needs at reasonable costs. We need to make these decisions based on the collective judgment of many people, including this Committee. Over the years, this Committee's deep concern about the status and condition of America's soil and water resources has been a significant catalyst in motivating and supporting constructive actions to solve conservation problems. I share this concern and Secretary Block is personally aware of these problems based on his first-hand experience as a farmer and as Director of Agriculture for the State of Illinois; the Secretary has a commitment to effective soil and water conservation programs.

In 1977 the Soil Conservation Service began the National Resource Inventories and as a result we now have much more factual information about the condition of the Nation's resources. We have information on recent trends in land use - less land is being used for cropland but more food and fiber is being produced per acre and in total. We know that one million acres of prime farmland is being lost to agriculture each year. We know that additional land can be converted to cropland, but at a loss in forage and wood production and with soil limitations that translate into higher production costs. We know that sheet and rill erosion amounted to two billion tons in 1977, and we know that erosion at rates that are a threat to future productivity occurred on 141 million acres or one-third of all cropland. We also know that sheet and rill erosion is especially serious on a relatively small percentage of U.S. cropland - there are 27 million acres where erosion is more than 14 tons per acre and while this is only 7 percent of U.S. cropland, it accounts for 43 percent of all erosion.

The Department's economists expect the demand for U.S. agricultural products -- domestic and foreign -- to increase by about 3 percent per year in the next 10 years. At this rate, demand may well exceed productivity gains and bring U.S. agriculture to a critical turning point where additional production is possible only at substantially higher prices.

Clearly, this prospect for higher production costs and higher food costs is the underlying rationale for several of the major recommendations in the USDA budget. It is the basis for increases in research needed to enhance agricultural productivity, and it is the basis for the recommendations for programs that will reduce or moderate soil erosion on agricultural lands.

The FY 1983 Budget is the first budget this Administration has developed from the ground up, and it attempts to reflect the relative priority of each agency and program. It is necessarily a constrained budget because of the continuing need to restore the Nation's economic health. The fiscal year 1983 program level for all USDA programs is down by 17 percent and outlays are down by 20 percent from FY 1982 levels. Budgetary constraints are of overriding priority for the present. Inflation must be controlled, and its devastating effects must be prevented from recurring. Only within the bounds of a sound Federal fiscal policy can we expect to design and carry out policies and programs designed to address the numerous challenges which are present in our complex society.

The FY 1983 proposal for the Soil Conservation Service is a positive one, especially when viewed in light of the generally constrained budget level. There are a number of key items in this budget which will help address the problems and concerns I have already mentioned. Chief Berg will discuss these proposals in some detail but I would like to mention one that Secretary Block and I consider to be the cornerstone of our proposals for the Soil Conservation Service as well as all USDA soil and water conservation programs. This is our request for $10 million to initiate a new program of matching grants for soil and water conservation under the authority and program objectives of the 1981 Agriculture and Food Act, Public Law 97-98. This program is designed to improve the Federal-state-local partnership in conservation. Conservation programs are most effective and successful where local people are heavily involved in the decision making and implementation. During FY 1983, expansion of state and local conservation efforts, particularly in geographic areas where critical erosion and upstream flooding threaten agricultural productivity, will commence with Federal encouragement. A greater state and local partnership with the Federal Government will eventually be forged for accomplishing conservation efforts which for a long time have been regarded as primarily a Federal responsibility. Funds will be made available to local units of government, primarily conservation districts, through state soil conservation agencies, on a matching basis with up to 25 percent of the funds coming from nonfederal sources. The funds will be used to supplement current technical assistance efforts. Conservation tillage, together with other needed conservation systems, will be stressed. The Secretary will designate critical resource problem areas of national significance. A local unit of government within these areas will be eligible to receive grant funds if:

-- it has in place a current long-range program which the state soil conservation agency determines is adequate to meet local and state laws and objectives;

-- it has a current annual work plan consistent with the long-range program; and,

-- it certifies to the Soil Conservation Service that it has arranged for matching funds or in-kind services from regional, state, local or private sources.

Approximately $2.9 million in state and local funds would be used to match the Federal grant for the first year. This program could support 340 nonfederal staff years of technical assistance and provide for the adequate protection of about 842,000 acres of land for present and future uses.

This grants program is consistent with the desires of the President and of this Committee that more decisions, including those relating to soil and water conservation, be made at the local level where the impact of those decisions is felt.

Fiscal restraint forces us to propose budget decreases this year for Watershed and Flood Prevention Operations, the Great Plains Conservation Program, and Resource Conservation and Development. The decreases in Watershed and Flood Prevention Operations and the Great Plains Conservation Program are tied to the need to hold down overall government spending, especially in construction and related programs. New construction contracts can be held down without destroying the basic program delivery system. For the Resource Conservation and Development Program, we have examined the merits of the program and have determined that more substantive and demonstrable benefits are obtained from other programs; thus we are advocating termination of the program so that available funds can be directed elsewhere.

In summary, I believe that the 1983 Budget request for the Soil Conservation Service is responsive to the most critical needs, given the current economic climate and available resources and the need to assign priorities among our soil and water conservation programs and activities.

Mr. Chairman, that concludes my statement. I will be pleased to answer any questions.

PREPARED STATEMENT OF NORMAN A. BERG, CHIEF
SOIL CONSERVATION SERVICE

Mr. Chairman, members of the Committee, we appreciate the opportunity to appear before you again today to discuss progress being made in solving some of the soil and water conservation problems facing our Nation and to support the Fiscal Year 1983 budget request for the Soil Conservation Service.

We also appreciate your leadership and strong commitment to the need for conserving the soil, water and watershed resources of this Nation. You have long recognized the need for cooperative actions with farmers, ranchers and foresters who earn their livelihood from the land. They produce an abundance of food and fiber at reasonable cost for our people, most of whom are not directly engaged in agriculture. This alone is a tremendous asset for our society. It is even more significant when we recognize that U.S. agricultural exports are approaching $50 billion annually to help feed people in foreign countries who lack the agricultural productive capacity they need to meet their domestic needs. You have pointed out many times that a prosperous Nation generates its strength from its soil, water and related resources, and from a healthy agricultural community.

As I prepared for this Hearing, I reread a USDA pamphlet entitled "Conquest of the Land Through 7,000 Years." Authored by Dr. W. C. Lowdermilk, formerly an Assistant Chief of the Soil Conservation Service, it was his personal report after he studied the record of agriculture in countries where the land had been under intense cultivation for hundreds, even thousands, of years.

His mission, several decades ago, was to find out if the experience of these older civilizations could help in solving the serious soil erosion and land use problems in this country as we struggled with the repair of the Dust Bowl and the gullied South. He learned that careful stewardship of the earth's resources, through terracing, crop rotation and other soil conservation measures, enabled certain societies to flourish for centuries. Other civilizations perished due to neglect of their soils through erosion, deforestation, overgrazing and from the salinity buildup in the water and soils of their irrigated lands. This study provides us, along with other documents, a long-range perspective as we look ahead.

Mr. Crowell's statement recognizes that there has been much progress over the last 47 years in solving critical soil erosion and water problems in America. We owe those millions of land users sincere thanks for what they have done to conserve their resources voluntarily over these many years.

For a number of good reasons, however, we still have the serious problems cited from our National Resource Inventory data that need attention if we are to continue to enjoy the abundance that our soil and water resources can provide. These conditions and trends are now documented in the 1980 Resource Appraisal. These publications - Parts I and II - are now in every USDA county office. I would recommend, Mr. Cnairman, that they become a matter of the public record because they provide a technical focus and reference upon which we can examine our current and potential resource problems and the programs available to deal with soil, water, and watershed conservation.

You and your committee have long recognized that agriculture changes over the years. Modern equipment is large and expensive. Many of the early effective conservation systems installed and used on the land have become outdated. Agriculture has become highly specialized in terms of cropping patterns on specific soils within large regional land areas. Some regions, such as New England, now depend almost entirely on outside food sources to feed their people. The difference between profit and loss is now, more than ever, based on management decisions subject to the whims of Mother Nature, the market place and the cost of production. The farmer or rancher, in too many instances, lacks the cash flow to adequately invest in conservation. Consequently, some of our best cropland soils are suffering erosion substantially above tolerable levels.

Mr. Crowell has already mentioned the 141 million acres or 34 percent of our Nation's cropland that are eroding at rates exceeding tolerable levels. About 48 million of these acres are eroding at a rate which is nearly three times the natural soil replacement process. This erosion significantly reduces long-term yields, increases production costs, degrades the environment and ultimately reduces our capacity to provide adequate food and fiber to meet domestic and export needs. Additionally, we have 62 million acres of agricultural land needing supplemental irrigation to produce a crop. Improving irrigation efficiency is a major water conservation measure in our western states.

Soil erosion, degradation of soil through salinity, and continued conversion of prime agricultural land to non-agricultural uses pose a significant challenge to the Nation.

The 1980 Appraisal, the National Agricultural Lands Study, and other recent authoritative reports have helped achieve a growing recognition that as long as we use land and water to produce agricultural goods we will need research, education and action programs to encourage and assist in the adoption of the conservation measures that are necessary to assure that its productive capacity is maintained. This new awareness is highly significant. Agriculture is a dynamic industry and conditions change. New problems appear as old ones are being corrected. Social and economic growth tend to bring additional needs for conservation. We recognize that soil and water conservation is a continuing task and that we need the ability to solve new problems as they appear.

Through the 1980 Appraisal, we know more about the complexity and location of our soil and water problems. A recommended soil and water conservation program will hopefully be sent to the Congress later this year. We are therefore continuing the process of adjusting program activities to permit us to focus on the most severe soil erosion and water problems.

Today's economic climate requires each of us, public servants and private citizens alike, to constrain spending. Inflation over many years has also seriously eroded the purchasing power of the conservation dollar. Solutions to economic problems have necessarily been the President's overriding concern in making his FY 1983 budget decisions. The budget for the Soil Conservation Service reflects this direction in total, with an overall decrease of $58.7 million, or 10 percent, from our 1982 level for a total budget of $515.8 million for FY 1983. However, within this constrained total there are several significant new and expanded program thrusts that represent positive steps towards addressing the problems Mr. Crowell and I have discussed. They will help to build a stronger Federal, state, and local team approach to soil and water conservation. I have provided a table (attached), for the record, that will display our proposed budget changes in detail, but I would like to summarize the major points.

Within the overall net decrease of $58.7 million there are $40.6 million in increases and $99.3 million in decreases. Of the increases, $5.6 million is for increased operating costs needed to maintain the continuing programs at the same accomplishment levels as 1982, and $16.6 million is for the October, 1981 pay costs which were absorbed in FY 1982 but are needed to carry out the proposed accomplishment levels for FY 1983. The remaining $18.4 million in increases and the $99.3 million in decreases are direct program change decisions which I will describe further.

Conservation Technical Assistance

Within the Fiscal Year 1983 budget request we have prioritized our Conservation Technical Assistance and related programs in order to deal more effectively with critical soil erosion and other problems in the geographical areas where the problems are most severe and where additional SCS resources can be made available. We intend to continue our programs now underway in nearly every county of the Nation and help maintain the conservation systems that have been applied to the land.

We began to target Conservation Technical Assistance funds to 13 selected geographic areas of the country in 1981, based on new program funds provided by the Congress. This effort was expanded in FY 1982 and will be expanded again for 1983 with the use of $3.0 million requested as an increase for program activities and $2.9 million that will be redirected in base funding. These additional funds will enable us to expand assistance in some of the currently targeted areas and to initiate accelerated technical assistance efforts in new areas. The funds will be used to address critical cropland erosion of more than ten tons per acre or water-related problems including salinity and water shortages that threaten long-term productivity of food and fiber.

By Fiscal Year 1983, about 5 percent of our Conservation Technical Assistance funds will be devoted to accelerated assistance in selected geographic areas. Early reports from targeted areas comprising more than a million acres in 10 States show a nearly 9-million-ton erosion reduction. Over 93 percent of the reduction in erosion occurred on cropland. Before accelerated technical assistance, 95 percent of the land in the targeted areas was eroding above the tolerable soil loss of 5 tons per acre per year. Of a total of 578,588 acres in the targeted areas now adequately protected, some 138,550 acres were eroding at twice the tolerable rate. Conservation districts, land users, and a number of agencies are enthusiastic about joining with SCS in targeting resources for erosion reduction, irrigation efficiency, and water quality.

In Fiscal Year 1983, SCS will help about 851,000 land users apply conservation practices to adequately protect about 41 million acres of land. These practices will help conserve soil and water, improve water quality, and improve and maintain our Nation's agricultural productivity. Some practices, such as conservation tillage, crop rotations, contouring, and irrigation water management, also help to reduce fuel and labor costs. The Soil Conservation Service also will continue to provide technical services for conservation activities administered by other agencies, including the Agricultural Conservation Program and a variety of state and local conservation programs.

Supporting Activities

Supporting our Conservation Technical Assistance program, including targeted efforts, are two key programs - Inventory and Monitoring and Soil Surveys. Both of these areas are proposed for increases in the budget.

Inventory and Monitoring - A program increase of $2.8 million is requested for conducting special high intensity inventories needed to support targeted technical assistance in areas with critical erosion, upstream flooding, and water conservation and quality problems. Data provided through national resource inventories have been useful for identifying national level resource conditions and trends, and for broad conservation program planning. More detailed data are needed to support conservation planning within targeted areas and to provide a base for comparison in evaluating conservation progress. These additional funds will be used to design and conduct specialized inventories within both current and potential targeted areas including the Palouse, the San Joaquin Valley, the Great Plains, and the Mississippi Valley which are major agricultural producing areas and encompass all or part of twenty-five states.

Soil Surveys - A program increase of $.6 million is requested for providing on-site technical soils expertise in interpreting, maintaining, and applying available soils data in support of the targeted technical assistance program in critical areas. While basic soils data is available in the form of completed soil surveys for much of the country, there is a need for qualified soil scientists to work directly with Federal, state, and local technicians in interpreting soils information in the preparation of conservation plans and application of conservation treatments on individual operating units. This increase would provide 15 staff-years of assistance in targeted geographical areas with critical resource problems.

New Matching Grant Program

In addition to increases proposed for the current technical assistance and supporting programs, the FY 1983 budget includes $10.0 million to initiate the new program of soil and water conservation grants outlined in Mr. Crowell's statement. These grants will be targeted to land areas with critical erosion or upstream flooding problems of national significance under the authority and program objectives of the 1981 Agriculture and Food Act, Public Law 97-98.

Many land users are making significant contributions to conserving soil, water, energy, and wildlife. State and local governments including conservation districts, and the private sector are already making significant investments in labor and money to conserve and protect our natural resources. This trend, underway for the past decade, has resulted in a non-Federal investment in conservation district programs that totaled nearly $267 million in 1981 as reflected on the table provided (attached). In addition, several times this amount is contributed by land users in constructing and installing conservation systems on their properties. The proposed Grant Program would encourage the growth of this non-Federal involvement.

Special Studies and Pilot Projects

Under the Resource Appraisal and Program Development line item of our Conservation Operations account, we are requesting a program increase of $1.5 million to initiate special studies and pilot projects. These studies and pilot projects are needed (1) to determine the most desirable mix of Federal, state, and local involvement in the resource conservation effort; (2) to allow for adjusting existing program priorities and strategies, if appropriate; (3) to identify the need to modify administrative regulations or legislative authorities; and (4) to provide data for the design of more responsive and effective programs. The additional funds will be used to carry out a number of special studies and pilot projects through the use of contracts, grants, and cooperative agreements with state and local units of government, universities, and others.

Other Program Increases

For River Basin Surveys and Investigations, we are proposing a small $.4 million increase to be used for six additional new studies that would address severe regional problems such as excessive soil erosion, upstream flooding, and inefficient use of water. Studies funded under this program have been very useful in the identification of geographic areas upon which to base the selection and targeting of conservation program resources to solve land and water problems.

There are also small increases of less than $50,000 each for Plant Materials Centers, and Snow Survey and Water Forecasting. These will restore one-time reductions made in FY 1982.

For the PL-566 Watershed Planning activity, no program change is proposed. However, there will be ten new planning authorizations for high priority projects.

Program Decreases

As Mr. Crowell has indicated, there are several program decreases proposed in the FY 1983 budget.

For the Watershed and Flood Prevention Operations account which funds our PL-534 Flood Prevention activity, our Emergency Watershed Protection Program, and our PL-566 Small Watershed Operations Program, a program decrease of $76.5 million, or 40 percent, is proposed in other than emergency work. There will be no new starts for FY 1982 and FY 1983 under this program. All funds will go toward completing work already under way. Decreases in construction and related programs are being proposed because of their inflationary nature and the fact that they can absorb temporary funding reductions without destroying the basic program delivery system.

The Great Plains Conservation Program is proposed for a program reduction of $6.6 million, or 31 percent, for the same reasons noted for the Watershed Program. This will result in postponement of signing and implementing about 350 new Great Plains contracts. However, sufficient funding is available for modification or extension of existing contracts.

The Resource Conservation and Development Program is again proposed for termination by the end of FY 1983. The $10.3 million requested in the budget will be used only for planning and implementing close down operations, including Reduction-In-Force procedures, and to provide technical assistance on critical measures where financial assistance was obligated prior to FY 1979.

Summary

Although the FY 1983 Budget for the Soil Conservation Service is a conservative one and reflects a net 10 percent decrease in funding and a 6 percent decrease in staffing, it does provide for a continuing and effective soil and water conservation program. Our basic program of direct Federal conservation technical assistance and the related support programs would be maintained and enhanced with additional focus on our most critical problem areas. This would be further supplemented by the non-Federal technical assistance that would be funded under the proposed Grant Program. These initiatives, together with the expanded research programs, are positive steps towards addressing our soil and water conservation problems and responsibilities.

Mr. Chairman, that concludes my prepared statement. With the help of my staff, I shall be happy to respond to your questions.

SOIL CONSERVATION SERVICE

FY 1983 BUDGET
($ in thousands)

	1981	1982 Current Estimate	Proposed Changes				1983 Budget Estimate
			Program	Non-Salary Operating Costs	Decrease in Publications Costs	Pay Costs	
Conservation Operations:							
1. Technical Assistance	$234,036	$233,916	+$3,000	+$3,602	-50	+$9,992	$250,460
2. Inventory and Monitoring	17,063	16,127	+2,773	+260	—	+650	19,810
3. Soil Surveys	48,434	49,254	+643	+918	-68	+1,867	52,614
4. Snow Survey and Water Forecasting	3,581	3,616	+47	+120	—	+95	3,878
5. Operation of Plant Materials Centers	3,146	3,558	+46	+72	—	+105	3,781
6. Resource Appraisal and Program Development	5,605	4,338	+1,459	+112	-4	+132	6,037
Total, Conservation Operations	311,863	310,809	+7,968	+5,084	-122	+12,841	336,580
Soil and Water Conservation Grants	—	—	+10,000	—	—	—	10,000
River Basin Surveys and Investigations:							
1. USDA Cooperative Studies	13,273	11,326	+396	+215	—	+405	12,342
2. Flood Plain Management Assistance	1,664	1,734	—	+33	—	+60	1,827
3. Interagency Coordination Program and Formul.	3,386	2,440	—	+52	—	+82	2,574
Total, River Basin Surveys and Investigations	18,323	15,500	+396	+300	—	+547	16,743
Watershed Planning authorized by PL-566	10,813	8,690	—	+110	—	+352	9,152
Watershed and Flood Prevention Operations:							
1. Watershed operations authorized by PL-534:							
a. Planning	1,285	1,320	-166	—	—	+46	1,200
b. Technical Assistance	11,573	11,881	-1,487	—	—	+415	10,809
c. Financial Assistance for construction:							
-Direct Federal contracting	7,436	7,134	-5,285	—	—	—	1,849
-Payment for contracting by local sponsors	3,001	2,880	-2,060	—	—	—	820
d. Loan Services	205	219	-44	—	—	+6	181
Subtotal, Flood Prevention	23,500	23,434	-9,042	—	—	+467	14,859
2. Emergency Watershed Protection Operations	10,000	10,000	—	—	—	—	10,000
3. Small Watersheds authorized by PL-566:							
a. Technical Assistance	62,413	62,119	-10,926	—	—	+1,648	52,841
b. Financial Assistance for construction:							
-Direct Federal contracting	62,784	62,689	-36,809	—	—	—	25,880
-Payment for contracting by local sponsors	33,407	33,357	-19,587	—	—	—	13,770
c. Loan Services	420	446	-89	—	—	+14	371
Subtotal, Watershed Operations	159,024	158,611	-67,411	—	—	+1,662	92,862
Total, Watershed and Flood Prevention Operations	192,524	192,045	-76,453	—	—	+2,129	117,721
Great Plains Conservation Program:							
1. Cost-sharing assistance	11,847	11,946	-5,669	—	—	—	6,277
2. Cost-share programming and contract admin.	2,821	3,057	-304	+38	—	+99	2,890
3. Technical Assistance	5,996	6,497	-647	+82	—	+209	6,141
Total, Great Plains Conservation Program	20,664	21,500	-6,620	+120	—	+308	15,308
Resource Conservation and Development:							
1. Technical Assistance	19,491	14,316	-4,576	—	—	+406	10,146
2. Financial Assistance	14,345	11,474	-11,474	—	—	—	—
3. Loan Services	210	210	-50	—	—	+6	166
Total, Resource Conservation and Development	34,046	26,000	-16,100	—	—	+412	10,312
Subtotal, SCS Appropriated Funds	588,233	574,544	-80,809	+5,614	-122	+16,589	515,816
Trust Funds	760	900	-200	—	—	—	700
Reimbursements and allocations from other agencies (non-add) 1/	(40,368)	(49,032)	(-8,708)	—	—	—	(40,324)
Total, SCS	$588,993	$575,444	-$81,009	+$5,614	-$122	+$16,589	$516,516
Full-time Equivalent Staff Years	14,764	14,700	-900	—	—	—	13,800

1/ Amounts included for the allocation from the Department of Interior for the Rural Abandoned Mine Program are as follows: 1981-$10,280; 1982-$5,088; 1983-$3,650.

SCS:Budget Formulation:1-28-82:REVISED

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SOIL CONSERVATION SERVICE

NATIONAL SUMMARY ESTIMATES - CONTRIBUTIONS OF FUNDS AND SERVICES TO SOIL AND WATER CONSERVATION DISTRICTS PROGRAM
FISCAL YEAR 1981 - (DOLLARS)

STATE	STATE GOVERNMENT	LOCAL GOVERNMENT	OTHER	FEDERAL NON-SCS	TOTAL
ALABAMA	637,000	1,116,000	640,000	28,000	2,421,000
ALASKA	3,187,799	44,500	259,965	0	3,492,264
ARIZONA	260,314	581,532	587,252	502,400	1,931,498
ARKANSAS	2,754,000	1,798,000	3,880,000	103,000	8,535,000
CALIFORNIA	207,400	4,640,800	3,202,200	820,000	8,870,400
CARIBBEAN AREA	3,213,048	753,750	1,543,146	0	5,509,944
COLORADO	270,644	926,636	964,716	191,600	2,353,596
CONNECTICUT	1,718,582	1,944,086	292,740	0	3,955,408
DELAWARE	1,190,600	219,900	371,000	0	1,781,500
FLORIDA	307,830	2,771,292	1,489,282	1,000	4,569,404
GEORGIA	1,262,000	3,935,000	1,564,000	1,000	6,762,000
HAWAII	207,285	280,460	466,065	0	953,810
IDAHO	393,014	499,755	1,139,795	161,268	2,193,832
ILLINOIS	1,908,996	2,657,167	4,588,241	1,000	9,155,404
INDIANA	1,165,424	2,644,719	3,776,604	30,850	7,617,597
IOWA	9,784,050	4,076,499	3,501,294	0	17,361,843
KANSAS	1,991,814	3,249,842	2,844,076	1,000	8,086,732
KENTUCKY	1,244,855	791,218	1,248,203	0	3,284,276
LOUISIANA	4,791,000	2,326,000	3,498,000	90,000	10,705,000
MAINE	720,035	452,680	958,016	0	2,130,731
MARYLAND	704,959	1,822,832	3,885,625	1,000	6,414,416
MASSACHUSETTS	272.500	437,800	261,400	0	971,700
MICHIGAN	2,630,000	2,275,883	3,065,186	500,000	8,471,069
MINNESOTA	3,733,876	3,674,391	1,749,010	2,500	9,159,777
MISSISSIPPI	628,047	1,315,804	1,703,453	40,000	3,687,304
MISSOURI	1,933,211	991,136	3,374,807	14,850	6,314,004
MONTANA	1,269,399	1,623,219	2,575,391	114,611	5,582,620
NEBRASKA	1,908,152	9,333,106	1,044,884	35,516	12,321,658
NEVADA	10,310	59,461	75,022	963,986	1,108,779
NEW HAMPSHIRE	7,980	144,272	154,572	0	306,824
NEW JERSEY	493,734	650,625	285,552	0	1,429,911
NEW MEXICO	630,254	269,217	1,548,202	689,075	3,136,748
NEW YORK	1,166,007	4,581,786	1,539,255	500	7,287,548
NORTH CAROLINA	1,034,864	5,087,665	1,188,557	9,500	7,320,586
NORTH DAKOTA	171,887	1,293,209	416,048	1,200	1,882,344
OHIO	4,358,609	4,238,643	2,910,164	0	11,507,416
OKLAHOMA	2,103,957	2,821,803	3,820,875	1,400	8,748,035
OREGON	507,335	961,527	1,315,375	157,208	2,941,445
PENNSYLVANIA	950,000	2,722,500	1,378,300	10,000	5,060,800
RHODE ISLAND	49,435	36,440	31,450	0	117,325
SOUTH CAROLINA	1,646,963	7,357,466	762,965	37,900	9,805,294
SOUTH DAKOTA	237,004	728,049	991,733	68,700	2,025,486
TENNESSEE	1,198,295	1,032,749	797,790	60,000	3,088,834
TEXAS	2,840,401	5,113,068	5,486,667	31,179	13,472,115
UTAH	0	733,700	1,397,800	65,200	2,196,700
VERMONT	230,170	153,209	808,783	2,500	1,194,662
VIRGINIA	353,587	1,537,030	326,861	0	2,217,478
WASHINGTON	273,205	895,314	734,294	60,000	1,962,813
WEST VIRGINIA	1,907,066	835,169	402,534	600	3,145,369
WISCONSIN	3,164,889	4,883,835	2,492,101	12,000	10,552,825
WYOMING	206,846	490,699	954,641	319,099	1,971,285
TOTAL:	73,838,632	103,812,243	84,293,892	5,129,642	267,074,409

UNITED STATES DEPARTMENT OF AGRICULTURE
SOIL CONSERVATION SERVICE

NATIONAL SUMMARY ESTIMATES - CONTRIBUTIONS OF FUNDS AND SERVICES TO
SOIL AND WATER CONSERVATION DISTRICTS PROGRAM
FISCAL YEAR 1981 - (DOLLARS)

STATE	PROG ASSMNT	CONS PLAN	CONS APPL	SOIL SURVEY	SNOW SURVEY	WATERSHED	RC&D AREA	OTHER	TOTAL
ALABAMA	795,000	151,000	481,000	199,000	0	289,000	437,000	69,000	2,421,000
ALASKA	239,780	452,404	2,445,542	318,853	26,100	0	0	9,585	3,492,264
ARIZONA	204,613	75,747	486,438	506,100	2,800	517,075	119,025	19,700	1,931,498
ARKANSAS	2,850,000	528,000	1,512,000	721,000	0	2,078,000	788,000	58,000	8,535,000
CALIFORNIA	1,465,200	583,000	2,875,000	940,200	66,800	1,852,200	1,025,000	63,000	8,870,400
CARIBBEAN AREA	734,438	573,536	3,846,170	0	0	101,200	249,000	5,600	5,509,944
COLORADO	581,626	190,572	778,611	239,350	19,925	375,346	115,236	52,930	2,353,596
CONNECTICUT	258,730	60,200	72,100	78,000	0	3,296,928	189,450	0	3,955,408
DELAWARE	123,700	144,100	599,600	0	0	525,800	337,700	50,600	1,781,500
FLORIDA	605,138	142,909	432,162	212,938	683,358	36,120	66,608	2,390,171	4,569,404
GEORGIA	1,304,000	377,000	2,256,000	34,000	0	1,516,000	907,000	368,000	6,762,000
HAWAII	206,142	80,477	390,891	0	0	77,250	186,400	12,650	953,810
IDAHO	371,664	282,087	557,388	260,158	14,784	115,854	393,246	198,651	2,193,832
ILLINOIS	1,973,738	661,679	3,863,489	496,902	0	1,497,109	477,328	185,159	9,155,404
INDIANA	2,088,371	799,273	2,329,717	628,564	0	1,024,669	502,442	244,561	7,617,597
IOWA	3,831,900	452,221	4,141,176	814,147	0	1,833,684	323,512	5,965,203	17,361,843
KANSAS	1,782,617	644,239	1,785,630	16,337	0	3,597,597	83,964	176,348	8,086,732
KENTUCKY	887,260	265,624	385,925	229,505	0	582,333	856,302	77,327	3,284,276
LOUISIANA	1,819,000	410,000	2,100,000	425,000	0	5,715,000	211,000	25,000	10,705,000
MAINE	254,235	173,800	438,030	250,850	0	24,000	962,216	27,600	2,130,731
MARYLAND	618,564	587,557	4,306,465	8,570	0	525,002	97,537	270,721	6,414,416
MASSACHUSETTS	161,500	46,000	57,800	8,600	0	87,800	545,300	64,700	971,700
MICHIGAN	1,774,306	746,784	3,272,073	1,124,504	0	436,670	1,056,165	60,567	8,471,069
MINNESOTA	1,493,226	981,199	3,114,204	858,460	0	603,542	455,246	1,653,900	9,159,777
MISSISSIPPI	638,821	186,329	1,128,915	137,160	0	1,187,275	183,099	225,705	3,687,304
MISSOURI	1,842,113	584,731	1,572,262	736,362	0	1,143,218	372,877	62,441	6,314,004
MONTANA	1,334,098	697,633	1,473,118	168,445	25,023	628,298	1,096,253	159,752	5,582,620
NEBRASKA	2,198,972	719,924	3,537,771	727,400	0	3,888,619	543,741	705,231	12,321,658
NEVADA	63,116	30,270	43,142	963,986	7,865	0	400	0	1,108,779
NEW HAMPSHIRE	107,444	31,387	87,091	38,505	0	34,715	7,432	250	306,824
NEW JERSEY	645,811	167,200	167,200	51,000	0	0	322,900	75,800	1,429,911
NEW MEXICO	496,651	95,678	1,285,695	699,850	17,400	271,090	78,024	192,360	3,136,748
NEW YORK	1,310,604	1,113,315	2,696,039	185,374	2,000	1,602,833	141,863	235,520	7,287,548
NORTH CAROLINA	1,062,842	460,174	1,245,119	626,047	0	3,378,421	238,914	309,069	7,320,586
NORTH DAKOTA	597,663	107,978	320,674	91,170	0	595,810	145,112	23,937	1,882,344
OHIO	3,978,620	2,248,707	3,055,969	949,707	0	730,767	401,476	142,170	11,507,416
OKLAHOMA	1,403,253	730,875	2,763,160	134,413	0	2,289,375	273,613	1,153,346	8,748,035
OREGON	466,961	251,912	1,045,301	246,416	21,640	164,507	106,530	638,178	2,941,445
PENNSYLVANIA	2,483,000	504,500	726,600	13,800	0	1,016,800	173,800	142,300	5,060,800
RHODE ISLAND	42,215	15,965	15,805	5,000	0	6,735	31,605	0	117,325
SOUTH CAROLINA	939,085	239,348	567,255	295,673	0	6,962,530	166,820	634,583	9,805,294
SOUTH DAKOTA	466,651	71,430	926,137	283,593	0	33,240	97,669	146,766	2,025,486
TENNESSEE	664,329	199,253	541,009	246,948	0	1,110,983	266,212	60,100	3,088,834
TEXAS	3,340,397	1,736,996	4,242,305	109,507	0	2,645,928	1,059,367	337,615	13,472,115
UTAH	338,200	312,400	850,000	142,100	10,800	219,800	256,400	67,000	2,196,700
VERMONT	119,843	24,936	623,480	52,500	0	175,353	97,500	101,050	1,194,662
VIRGINIA	465,961	111,260	155,868	231,360	0	930,223	259,600	63,206	2,217,478
WASHINGTON	470,416	80,820	485,473	111,200	700	586,500	217,230	10,474	1,962,813
WEST VIRGINIA	368,362	352,444	842,305	37,750	0	710,304	556,884	277,320	3,145,369
WISCONSIN	1,591,432	1,486,396	3,536,571	261,282	0	425,323	328,232	2,923,589	10,552,825
WYOMING	390,524	99,160	563,211	373,749	24,355	42,000	439,037	39,249	1,971,285
TOTAL:	54,252,132	22,070,429	77,024,886	16,291,335	923,550	57,488,826	18,247,267	20,775,984	267,074,409

UNITED STATES DEPARTMENT OF AGRICULTURE
SOIL CONSERVATION [illegible]VICE

FUNDS APPROPRIATED BY STATE AND LOCAL GOVERNMENTS FOR CONSERVATION PROGRAMS
FISCAL YEAR 1981 - (DOLLARS)

	STATE GOVERNMENT	LOCAL GOVERNMENT	TOTAL
ALABAMA	678,000	899,000	1,577,000
ALASKA	1,316,687	131,700	1,448,387
ARIZONA	181,970	354,080	536,050
ARKANSAS	2,503,000	572,000	3,075,000
CALIFORNIA	2,513,000	1,981,300	4,494,300
CARIBBEAN AREA	548,300	0	548,300
COLORADO	313,899	248,800	562,699
CONNECTICUT	1,670,292	1,912,136	3,582,428
DELAWARE	1,239,000	191,300	1,430,300
FLORIDA	555,344	1,100,589	1,655,933
GEORGIA	1,586,000	3,651,000	5,237,000
HAWAII	2,943,080	615,238	3,558,318
IDAHO	2,902,800	90,504	2,993,304
ILLINOIS	2,071,600	4,776,100	6,847,700
INDIANA	1,603,983	2,730,029	4,334,012
IOWA	8,489,900	1,060,000	9,549,900
KANSAS	2,437,482	668,319	3,105,801
KENTUCKY	773,439	655,093	1,428,532
LOUISIANA	4,272,000	171,000	4,443,000
MAINE	96,970	360,450	457,320
MARYLAND	778,268	975,270	1,753,538
MASSACHUSETTS	836,000	857,800	1,693,800
MICHIGAN	1,315,000	1,475,941	2,790,941
MINNESOTA	5,128,800	2,185,000	7,313,800
MISSISSIPPI	675,149	940,991	1,616,140
MISSOURI	1,565,000	984,000	2,549,000
MONTANA	651,622	1,001,057	1,652,679
NEBRASKA	3,738,075	13,817,739	17,555,814
NEVADA	5,160	37,175	42,335
NEW HAMPSHIRE	275,719	67,481	343,200
NEW JERSEY	518,100	4,007,125	4,525,225
NEW MEXICO	356,245	536,018	892,263
NEW YORK	1,365,800	3,792,679	5,158,479
NORTH CAROLINA	1,202,247	7,169,930	8,372,177
NORTH DAKOTA	1,103,834	870,600	1,974,434
OHIO	5,910,269	3,109,397	9,019,666
OKLAHOMA	1,883,149	2,092,379	3,975,528
OREGON	255,591	392,882	648,473
PENNSYLVANIA	950,000	1,300,000	2,250,000
RHODE ISLAND	12,100	1,900	14,000
SOUTH CAROLINA	1,577,871	1,960,000	3,537,871
SOUTH DAKOTA	202,440	589,550	791,990
TENNESSEE	411,993	1,433,630	1,845,623
TEXAS	3,168,768	3,502,684	6,671,452
UTAH	6,851,000	773,000	7,624,000
VERMONT	190,050	52,200	242,250
VIRGINIA	1,989,630	2,276,879	4,266,509
WASHINGTON	194,000	424,307	618,307
WEST VIRGINIA	618,000	819,000	1,437,000
WISCONSIN	3,175,716	3,582,200	6,757,916
WYOMING	317,857	190,143	508,000
TOTAL:	85,920,099	83,387,595	169,307,694

NEED FOR SOIL CONSERVATION PROGRAMS

Senator **Cochran**. We have a considerable number of questions about the proposals that you are submitting to the subcommittee this year. First of all, I want to say there has been a great deal of attention focused on programs of the Soil Conservation Service by the press, and we think this has been a healthy examination of previous practices and problems that now confront our Nation's farmers in their efforts to protect soil from erosion. I wonder what your reaction is to one observation I saw reported, that the past practices of the Soil Conservation Service just haven't worked, and that we have, in effect, put money in a lot of so-called soil conservation projects that have not really addressed the more serious losses that are being witnessed of top soil eroding into our streams and rivers. For instance, one report has it that in my State there are areas that are losing as much as 20 tons of top soil per year per acre. The national average is some 10 tons per acre per year. What are your figures on that, and how do you assess what you have been doing in the past in terms of its effectiveness?

Mr. **Crowell**. Mr. Chairman, I might take the initial crack at answering that question, and then Mr. Berg might be able to furnish some of the technical data.

I, perhaps, am best qualified to venture an opinion about the effectiveness of the Soil Conservation Service programs in the past, because I have only been associated with the Soil Conservation Service for the last year. The thing that impressed me as I became familiar with the Soil Conservation Service programs was that the need to be concerned about soil erosion, flood control, water quality, and water conservation is an ongoing one. As long as we have agricultural activity in this country, we are going to have to be concerned about the effects of that activity on soil erosion and the possibility that if we don't carry out agricultural activities in a way that will husband our soil and water resources, we may eventually reach a point where our production capabilities are reduced.

Agriculture is a changing, dynamic endeavor. Much of the soil erosion we are seeing today in some parts of the country is the result of changes in agricultural practices that have occurred over just the last decade or so. The fact that we now have a great deal more row cropping than we had a few decades ago has meant we have converted pasture lands and even forestland into cropland. We are growing crops, particularly soybeans, in greater quantity than ever before, and the soil is not being appropriately guarded against erosion. We have identified through the RCA appraisal some areas of the country where soil erosion did not used to be a problem, but it has now become one. The Soil Conservation Service has moved to try to deal with those problems. At the same time, we have done our best to try to preserve the capability of the Service to work in other parts of the country where we don't have problem areas, but where agriculture is a significant contributor to the economy and where the loss of soil could become a problem.

Now, Mr. Berg might be able to provide some figures about the average soil loss on cropland nationwide and some of the details which came out of the appraisal, if that is all right with you.

Senator **Cochran**. Yes, thank you, Mr. Crowell.

Mr. Berg?

Mr. **Berg**. Mr. Chairman, the story on soil and water conservation, as Assistant Secretary Crowell points out, is a continuing one. There has been progress made. I think we are talking specifically about the problems that have developed in spite of the good programs that have been available and the fact that 3,000 conservation districts have an excellent record of accomplishment. There are conditions that are serious. We consider anything above 5 tons of soil loss per acre per year on cropland to be something that nature cannot itself rebuild. We do have areas that have been identified in our soil survey and inventory appraisal work that show that some of these problems have been in existence for a long time and others, as Mr. Crowell points out, have developed within the last decade because of changes in farm enterprises and the way in which the land is handled.

The 413 million acres of cropland that we feel is most important to deal with in terms of soil loss is, for the most part, being handled fairly well. But a third of those acres are subject to erosion that, over time, will reduce their productive capacity. So those are the areas we are talking about that need additional attention.

On the rangelands of the country, less of a loss per acre is warranted, probably around 2 tons per year, because these are more fragile lands. This is primarily a matter of improving the vegetation on those areas, to maintain production from the rangelands.

We are finding that we need to give very, very concentrated attention to the areas that have the most serious problems, while, at the same time, maintaining those good conservation systems that are in place and that are keeping the soil loss at a minimum level. So it is a changing, dynamic situation we are dealing with. We are finding that some areas in the country have moved into continuous cropping patterns within the last several years. We need to have better answers as to how to deal with that kind of an agriculture in reducing resulting soil losses.

IMPACT OF FISCAL YEAR 1983 BUDGET REQUEST

Senator **Cochran**. Do you feel that the budget request that you are submitting to this subcommittee will give you enough personnel to provide the technical assistance that will be needed to make real progress in slowing down the erosion pattern that we have seen developing?

Mr. **Crowell**. We have tried to develop a program in response to the RCA appraisal which would permit us to make progress on reducing soil losses throughout the country. We think we can make such progress. We admit that the resources would not be sufficient to bring us to a no-soil-loss situation in the foreseeable future. The appraisal has caused us to focus on the improbability that the Federal Government can accomplish the elimination of soil erosion completely. This realization has caused us to look for other ways in which we may be able to develop a heightened concern and interest in the agricultural community and in the public about soil losses and the potential long-term consequences. We have proposed a budget request which is a first step toward strengthening the partnership between Federal, State, and local governments with existing conservation districts being the focal point for producing conservation results.

If the only problem we had to confront in building the budget was the problem of soil erosion, we would doubtless be asking for more Federal funding. But it isn't the only problem that the Government confronts in building the budget. We have other heavy demands, as you Senators know better than I do, on the resources of the country available from the Federal Government, and we have to balance those demands against the available resources. Consequently, no agency in the Federal Government probably will be adequately funded to do everything that people identify as a potential problem that a particular agency should handle.

Senator **Cochran**. Are there innovations included in your planning for next year that can lead us to expect greater progress in our soil conservation efforts? If we rubberstamp the request you are making and Congress goes along with the proposals for targeting to special problem areas that you suggest in this budget, do you think that we will have less top soil erosion next year than last, or will we have more?

Mr. **Crowell**. If everything else remained equal, I think we would have less. But it is very hard for us to predict if everything else will remain equal, agriculture being the dynamic endeavor that it is. We have tried to tailor the budget for 1983 in a way that would allow us to get the most results for our available dollar. We are moving toward targeting some of our resources to areas where the soil loss problems are most severe, though I don't mean to overemphasize targeting as a concept. Even after we complete the shifting of those resources to targeting as we now contemplate, we would only be targeting 25 percent of our conservation technical assistance budget to problem areas. The first year would involve a 5-percent shift, and each successive year for the next 5 years a further 5-percent shift to such problem areas until a full 25 percent of these resources are targeted. The other 75 percent would remain available throughout the nonproblem areas of the country to assure they would not become problems in the future.

Senator **Cochran**. Senator Abdnor, do you have any questions?

NEW PROGRAM INITIATIVES

Senator **Abdnor**. Not really, but yes, there is something I want to ask here. You are speaking, Mr. Crowell, of new programs. What are some of those going to be?

Mr. **Crowell**. So far I have talked about new emphases to existing programs. We do have one initiative in the budget calling for a $10 million matching grant program which would be under the authority of the 1981 farm bill that was passed late in December. This authorizes the use of funds for contributions to established conservation districts through the appropriate State agencies on an up to 75-percent Federal and 25-percent or more matching basis. Now, obviously $10 million isn't going to go very far in dealing with a problem of this magnitude, but we hope that it will be a kind of pilot program which will give us some indication of its potential effectiveness before going further in this program.

Senator **Abdnor**. Why was it to the State and local level?

Mr. **Crowell**. Because it is not just a problem the Federal Government ought to be concerned with. We have quite a number of States which are already making substantial commitments and contributions toward reducing soil losses. In fact, there is a list of those States and their current funding attached to Mr. Berg's statement, which has been submitted for the record.

Senator **Abdnor**. The local, I guess, is what I am wondering about—these little communities. They can't keep up with the schools and all. If you are talking about the operator maybe on the local level, it might be one thing, but we are kidding ourselves.

Mr. **Crowell**. The law says that the matching funds may be local or State. I am sure you are right, to the extent the program would succeed in achieving matching grants the funds would come out of the State budget.

Senator **Abdnor**. Let me ask you this. Don't you think with the cash flow like it is that this is the one place, while maybe the farmer knows it is right, when you are in a tight bind you will do a lot of things, isn't this a place in your budget where you can say, well, I am going to have to do without?

Mr. **Crowell**. That is very possible, but on the other hand, there are a great many farmers who recognize the seriousness of erosion and will undertake to do something about it even if it does cost money out of their pocket. They view it as an operating cost that must be incurred if they are going to preserve the productivity of their land.

Senator **Abdnor**. I remember a few years ago when the interest rates first went up to 18 percent. We didn't particularly have a good crop, and prices weren't all that great. But the crop loss was really probably a bigger factor. I was campaigning and I stopped in some soil conservation county offices. It was just amazing to see the amount of tree belt planting agreements the farmers were backing out of. The time was coming to put the program in effect. They were dropping out, because that was the easiest thing to get out. The tree belt crop sharing on the part of the farmer was almost nil compared to his other expenses. But this was the first place to go to. I really believe you are going to see that again. Maybe we are going to have to do it for a couple years until things improve, but I think we better admit there is probably going to be a greater loss in soil practices than ever before. They are going after every dollar they can receive. They are hurting. They don't have a choice. Even though they don't like to do it, it is something they are going to have to do.

The budget is dropping how much, 17 percent?

Mr. **Crowell**. The budget will be down from an estimated $575 million in 1982 to $516 million in 1983, or about 10 percent.

REDUCTIONS IN R.C. & D. AND GREAT PLAINS PROGRAMS

Senator **Abdnor**. One other thing I am wondering about. Obviously, you are doing away with the R.C. & D.'s. In your statement you say you have some new programs or other programs that are better. What do you have in mind?

Mr. **Crowell**. The elimination of the R.C. & D. program is not because we are convinced that it doesn't serve any purpose, but we are confronted with making some difficult choices. We feel that given the priorities of reducing soil erosion, and upstream flood prevention and water conservation, the R.C. & D. program does not contribute as much to those objectives as do our other programs. For that reason, with some reluctance, we are recommending the R.C. & D. program be phased out.

Senator **Abdnor**. That will bring a lot of howls. Those have been major programs in areas of rural America.

Mr. **Crowell**. We are aware they have a high degree of receptiveness in places where they have been utilized.

Senator **Abdnor**. How about the Great Plains; is that going to take a beating this year?

Mr. **Crowell**. It is scheduled under this budget for a $6.6 million reduction which is 30 percent of the program. Again, that is a regrettable reduction, because it does make a valuable contribution. We would still have $15 million in the program. The cut would occur by entering into fewer new contracts.

Senator **Abdnor**. The old still stay on?

Mr. **Crowell**. The old contracts will stay. When we enter into a contract, we commit the Government's obligation for the entire term of the contract. We have the money in hand to complete these commitments. The entry into new contracts would be reduced by about half.

Senator **Abdnor**. That would be enough to discourage some from growing it. I guess at a time like this when we have simply too many acres, reduction rather than price is the way to go. You are more interested in going into the program a year at a time. I realize you are struggling for every dollar.

Mr. **Crowell**. The Great Plains program doesn't necessarily result in taking acres out of production. It assists the farmer with the cost of putting in soil conservation measures, and then he contracts to leave them in place for 10 years. He gets the payment over that period of time.

Senator **Abdnor**. Thank you, Mr. Chairman.

Senator **Cochran**. We have some more questions which I hope you will be able to answer in writing for us. We are going to be looking very carefully at the request that you made. Senator Abdnor has identified some accounts that we feel very strongly about up here on the Hill. I hope we can work together with you as we get into the details of this request to be sure we meet this enormous challenge that is being faced by farmers and landowners throughout our great country to develop and administer as effectively as possible the right kind of programs. We appreciate your answers to our questions this morning and your being here and helping us with this hearing.

Mr. **Crowell**. Thank you.

Senator **Cochran**. Incidentally, Senator Robert Byrd has indicated an interest in asking some questions of this panel. We would like to ask you to stand by a little while longer to see if there are other questions from Senators.

Mr. **Crowell**. We will be pleased to respond to the questions that may be submitted in writing and look forward to working with the committee. We know we have your support for what we are trying to do, and we also know that you recognize that we have some difficult choices to make in this tough budget.

Senator COCHRAN. Senator Byrd.

Senator BYRD. Mr. Chairman, I want to thank you for your courtesy that has been extended to me.

Senator COCHRAN. Senator, we are very happy to have you here this morning to participate in these hearings.

Senator BYRD. I appreciate that.

Senator COCHRAN. We have Mr. Berg, who is head of the Soil Conservation Service; Mr. Crowell, the Assistant Secretary who has the Soil Conservation Service under his jurisdiction; and Mr. Unger and Mr. Gardner.

Senator BYRD. Thank you.

NEW WATERSHED PROJECT STARTS

Gentlemen, the fiscal year 1983 budget request for small watershed projects is $92,862,000, a decrease of 42 percent below the fiscal year 1982 appropriation of $158,611,000. How many new watershed projects has the Department initiated during the first 5 months of fiscal year 1982?

Mr. BERG. Senator, we have not initiated any new starts this fiscal year.

Senator BYRD. How many are anticipated to begin construction in the remainder of this fiscal year?

Mr. BERG. Under the present direction we have, there will be no new starts this fiscal year, nor next fiscal year.

Senator BYRD. I didn't understand you.

Mr. BERG. Under the direction that we have attached to our budget allowance from the Office of Management and Budget, there will be no new starts in fiscal year 1982 or fiscal 1983 for construction of watershed projects.

Senator BYRD. Now, you anticipated my next question. How many are slated to begin in 1983? You say there will be none.

Mr. BERG. There will be an allowance for 10 new planning starts in 1983, but no new construction starts at this time.

Senator BYRD. Ten new planning starts but no new construction starts.

Mr. BERG. Yes.

Senator BYRD. The statement of the managers which accompanied the conference report on the fiscal 1982 appropriations bill contains this statement about small watershed projects: "The conferees agree that the Department shall initiate not less than 25 new construction starts." What are you doing to implement that directive?

Mr. CROWELL. We are not implementing the directive at this time.

Senator BYRD. So you are ignoring the instructions on the part of the statement of the managers accompanying the fiscal 1982 appropriations bill.

Mr. CROWELL. We feel we have to do that, Senator, because for fiscal year 1983, the total amount available for the small watershed construction program simply is not large enough to permit the new starts and also to continue to proceed with those projects that are already under construction. We feel it is important to keep the commitments that have already been made to the sponsoring agencies of existing projects. That has higher priority than new starts.

Senator **Byrd**. So what are the conferees to understand, that you are not going to implement their directive?

Mr. **Crowell**. I am afraid that has to be the consequence, Senator, in view of the limitations on the funding of the program overall.

FUNDS FOR NEW CONSTRUCTION STARTS

Senator **Byrd**. Do you not have any funds to initiate any new construction starts?

Mr. **Crowell**. We do have funds for the program; however, if we were to initiate new construction starts, it would mean reneging on some commitments for projects that are already underway. We don't think that is appropriate. We think that would create more problems than it would solve. Consequently, we have elected to continue to meet the obligations we are already under rather than taking on some more, and not being able to complete any of them fully.

Senator **Byrd**. Let's say, though, you are proceeding to keep your commitments with respect to starts that have already begun. Do you have any funds left at all with which to at least begin the implementation of the conferees' directive?

Mr. **Crowell**. We do not see that we have such funds, no.

Senator **Byrd**. In the request for funds that comes up to OMB from your agency, have you requested funds that would allow the implementation of the directive?

Mr. **Berg**. No, the Department has not.

Senator **Byrd**. You did not. Why didn't you? You have a clear directive of the conferees.

Mr. **Berg**. The matter is somewhat complicated by the fact that the administration is reviewing water resources policy and also that the new farm bill permits the agency to approve projects of up to $5 million in cost.

Senator **Byrd**. Up to how much?

Mr. **Berg**. Up to $5 million in Federal costs. That is an increase from the previous figure of $1 million. The plans that were on hold in OMB and that are less than $5 million have now been returned to us. We have some new direction on what needs to be done in terms of our new plans that would be approved either within the administration or sent to Congress. The position at this particular stage is that we need to evaluate current guidance in terms of the new direction on water resource policy and how that impacts on our watershed projects. Then we can be responsive to whatever needs to be done if additional funds would be requested.

Senator **Byrd**. From where are you getting the new direction?

Mr. **Crowell**. The new direction is coming from the White House, the President, through the review of policy applicable to water projects generally, which has been conducted first by an Assistant Secretary working group and then by the Cabinet Council on Resources and Environment.

Senator **Byrd**. And what is the new direction?

Mr. **Crowell.** The new direction is an emphasis on maximizing net economic development with water projects. Projects under the jurisdiction of the Soil Conservation Service, however, are subject to an exception which can be granted by the Secretary himself upon secretarial review. In other words, a Soil Conservation Service project need not meet the maximum economic development objective if it is accomplishing other objectives.

Senator **Byrd.** Is the White House's direction that you are not to initiate any new construction starts?

Mr. **Crowell.** No; that is not the White House direction.

Senator **Byrd.** Well, whose direction is it?

Mr. **Crowell.** It was a judgment we had to make in the Department in formulating the 1983 budget proposals in view of the necessity to keep Federal expenditures down as much as we could.

Senator **Byrd.** In formulating the new proposals, did you not give any consideration whatsoever to the statement of the managers accompanying the conference report?

Mr. **Crowell.** We certainly did, Senator. But there just aren't enough resources to go around sometimes, and consequently, we had to make some priority judgments. Despite the direction of the conference report, we felt that other things were of higher priority, either mandated by law or that were already underway in the form of contractual commitments.

Senator **Byrd.** Why could you not have requested additional funds in the new budget at least and let that decision be made by someone higher up?

Mr. **Crowell.** That would be an alternative, but I suspect if we had requested the funds, the decision would have been the same.

Senator **Byrd.** But you suspected it would. You didn't try. You didn't make the effort.

Mr. **Crowell.** That is true.

SOAK CREEK WATERSHED PROJECT

Senator **Byrd.** The Agriculture and Food Act of 1981, which was signed on December 22, 1981, gave the administration the authority to unilaterally approve watershed projects which do not exceed $5 million. On January 22, 1982, Secretary Block requested that the Office of Management and Budget return to the Department eight small watershed plans which are below the $5 million threshold, including one for the Soak Creek Watershed in West Virginia. Mr. Frederick Khedouri, Associate Director of OMB, returned these projects on March 3, 1982, and noted in his letter to the Secretary that the Soak Creek project, among others, could not be initiated at this time because (1) the project needs a waiver of net national economic development criteria, (2) the plan does not have OMB approval, and (3) the administration presently has a policy of no new watershed project starts. What action is the Department currently taking with respect to the Soak Creek Watershed plan, and what future actions do you contemplate that the Department will make on behalf of this project?

Mr. **Crowell.** We are currently reviewing the eight plans that were returned by the OMB at the Secretary's request, in order to reevaluate the extent to which exceptions from the net national economic development goal will be necessary. Part of that review would be for the purpose of assigning priorities among those eight plans. The decision would then be made by the Secretary as to whether or not to grant the exemption which would allow the plans to be placed in line for a start when funding became available.

Senator BYRD. Now I am asking you a specific question, and I will ask it again. What action is the Department currently taking with respect to the Soak Creek Watershed plan, and what future actions do you contemplate the Department will take on behalf of that project?

Mr. CROWELL. I think I answered the first half of the question. I would have difficulty projecting what action the Department might take in the future. I just don't know, Senator.

Senator BYRD. The answer to the first half of the question was what; it is taking no action?

Mr. CROWELL. No; the answer is we have it under review along with the other seven plans for the purpose of determining the extent to which it would qualify for the needed Secretary's exemption.

Senator BYRD. So it is under review.

Mr. CROWELL. Yes, sir.

Senator BYRD. But the Secretary has no plans to proceed with this project at this time because of the administration's policy on no new starts; is that correct?

Mr. CROWELL. He has made no decision one way or another about that. But yes, the no new starts decision would delay this project even if the project were granted the Secretary's exception which would simply place it in line for eventual starts once the prohibition on new starts was lifted.

Mr. BERG. Senator, just to add a point there. If the plan could be approved after we meet the matters at hand here, then some further work could be underway until a new start is allowed.

Senator BYRD. What further work are you talking about?

Mr. BERG. There has to be additional work done in terms of local commitments that have to be met, and the necessary surveys and designs which can be done until we get to the point where a construction start could be authorized.

Senator BYRD. Did you say you didn't have enough money for new starts? You did, didn't you?

Mr. CROWELL. Yes.

UTILIZATION OF FISCAL YEAR 1982 APPROPRIATION FOR WATERSHED PROJECTS

Senator BYRD. Congress added $34 million for new projects in fiscal year 1982. How do you square that with what you just said?

Mr. CROWELL. The only answer I can give you is that we are currently under direction from the Office of Management and Budget not to commence new starts.

Senator BYRD. Oh, now we are getting somewhere. A moment ago you said you didn't have any money for new starts. But when I stated that Congress added $34 million for new projects in fiscal year 1982, you now say you are under orders from the OMB not to proceed with any new starts.

Mr. **Crowell.** I am not sure it is correct to say the $34 million was added specifically for new starts. I am not aware of that characterization as being accurate. The funds were added to the small watershed project moneys. We didn't have enough up until that point to carry out the previous commitments.

Senator **Byrd.** We will not argue over whether the word is "starts" or "projects." Let's say Congress added $34 million for new projects in fiscal year 1982. Why are you not proceeding with any new projects?

Mr. **Berg.** The total for all watershed and flood projects is $192 million for fiscal year 1982. We did have some carryover from fiscal year 1981 in deferred status until the fiscal year started. We used those funds to move immediately on those contracts that had been awaiting progress this fiscal year. We still have some money in reserve this fiscal year if we have other projects that can meet the needed commitments. However, we are now halfway through the fiscal year and can see that the demand for more construction on those approved projects that already have construction underway will exceed the available funds.

Senator **Byrd.** Yet the conferees agree the Department shall—they didn't say "may"—initiate not less—and it didn't say "less," it says "not less"—than 25 new construction starts. Now you say you have some carryover money and Congress added $34 million for new projects.

Mr. **Berg.** We have managed our funds in such a way that by the end of the fiscal year we will have made very effective use of every dime allotted for this particular purpose. But at this stage there is a hold on new construction starts.

Senator **Byrd.** The hold is by OMB; is that correct?

Mr. **Crowell.** That is correct.

Senator **Byrd.** If OMB would lift the hold, could you then proceed with some of the new construction starts that you were directed to initiate?

Mr. **Crowell.** I am sorry, I didn't hear the first part.

Senator **Byrd.** If the hold were to be lifted by OMB, could you then proceed with some of the new construction starts that the conferees directed the Department to initiate?

Mr. **Crowell.** One of the obstacles would have been removed by lifting that prohibition. On the other hand, we would still have the problem of inadequate funding to continue construction on the total number of projects that are already underway plus initiate some new ones.

Senator **Mattingly** [presiding]. Would the Senator yield for a question?

Senator **Byrd.** Yes.

RATIONALE FOR THE NO NEW CONSTRUCTION STARTS POLICY

Senator **Mattingly.** When they say no new starts, not to spend the money, do they give any reasons? Do they just call up on the phone?

Mr. **Crowell**. I assume the reason is the concern over expenditures of Federal funds and commitments of future funds. Once a new construction start occurs, then we have something in the pipeline which is going to involve expenditures for a number of years. If the Office of Management and Budget is concerned over total expenditures, that is one way to hold down one element of Federal expenditures.

Senator **Mattingly**. I wonder if that filtered back down to the Congress to let us know why.

Mr. **Berg**. Senator Mattingly, our watershed program is small in terms of water resources activities that are conducted throughout the country by the Corps of Engineers, the Bureau of Reclamation and the TVA. However, we are in that same category when it comes to determining whether there should be new construction. Now, construction is one of the things that contributes to inflationary pressures. That is one of the reasons for reducing these kinds of activities.

Senator **Byrd**. The Soak Creek Watershed program and its related environmental impact statements were completed in January 1979, more than 3 years ago. The plans have been reviewed by the Office of Management and Budget for the last 15 months and were returned to the Department 2 weeks ago still without OMB approval. In your view, is there any reason why the OMB should require 15 months to review and approve small watershed projects such as this?

Mr. **Crowell**. I have no awareness of the extent of workload at OMB. I can only assume the reason for the delay was that there were other things that demanded their attention. I can say, frankly, Senator, that part of the delay would have been attributable to the fact the new administration was reviewing the standards under which water projects generally would be approved, and that has taken almost 1 year to work out through the Assistant Secretary working group and Cabinet Council I referred to in response to one of your earlier questions.

Senator **Byrd**. Going back to the statement of the managers accompanying the conference report on the fiscal 1982 appropriation bill, I repeat the language contained in that statement about small watershed projects. "The conferees agree that the Department shall initiate not less than 25 new construction starts." Also, repeating my statement that Congress had added $34 million for your projects in fiscal year 1982. Wouldn't you agree that the Office of Management and Budget is not being responsive in expediting approval of watershed projects as directed by the Appropriations Committee in the conference report accompanying the Supplemental Appropriations and Rescission Act of 1981?

Mr. **Crowell**. Senator, I would agree that they aren't being responsive to that particular direction. But I would also remind you there are much larger concerns with which they are involved, and that is the size of total Federal expenditures. One has to sacrifice some objectives or some desired programs or projects if we are going to have any kind of budgetary control whatsoever.

Senator **Byrd**. I thank you for the reminder. I would remind you of the fact that Congress also takes an overall look at all of these and all of the Federal Government and the needs of the people. I will remind you also that the statement of managers accompanying conference reports is not to be taken lightly. Congress will be here after some of the people who are in OMB are gone. We have seen them come and go. So I will just remind you of the fact that Congress doesn't make these statements in its conference reports lightly. It doesn't expect them to go ignored by your department or your agency or by OMB or by anyone else. We realize the fiscal problems that confront our country and our Government.

Mr. **Crowell**. I assure you, Senator, the administration does not take direction from the conference report lightly.

WATERSHED PROJECTS UNDER CONSTRUCTION

Senator **Byrd**. Finally, suppose you provide—Mr. Chairman, if I may ask that it be done—for the record a list of all of the small watershed projects underway in fiscal year 1982 and 1983 and indicate your dollar allocation for each project in each year, so that the committee itself can take a look at the list and reach a judgment as to whether or not there is justification for the failure to implement the statement of the managers, and that is managers of both Houses—the Senate and the House—accompanying the conference report, directing that the Department shall initiate not less than 25 new construction starts. May I have that for the record?

Mr. **Crowell**. We will provide it, Senator.

[The information follows:]

Fiscal Year 1982
Distribution of Small Watershed
Financial Assistance Funds by State and Project

ST	ALLOWANCE	PROJECT
AK	0	
AL	2,000,000	Mush Creek
AL	300,000	Wilkerson Creek
AL	250,000	Buck Creek
AL	300,000	Factory Creek
AL	100,000	Crooked Creek
AL	13,000	Tallaseehatchie Creek
AR	1,000,000	Upper Tri-County
AR	400,000	South Fourche Creek
AR	600,000	Fourche Creek
AR	257,000	Poinsett
AZ	2,000,000	Buckhorn-Mesa
AZ	500,000	White Tanks
AZ	5,400,000	Williams-Chandler
CA	1,000,000	Central Sonoma-Spring Creek
CA	1,200,000	Carpinteria-El Estero
CO	900,000	Sedgwick Sand Draw
CT	22,000	South Branch Park River
DE	524,000	Upper Choptank
DE	554,000	Marshyhope
FL	150,000	Pond Creek
FL	250,000	Sarasota West Coast
GA	6,000	Tobesofkee
GA	20,000	Little Tallapoosa
GA	240,000	Sallacoa Creek
GA	149,000	Mill Branch
GA	375,000	Cedar Creek
GA	350,000	L. Sandy-Trail Creek
HI	250,000	Naalehu-Debris Basin
HI	80,000	Wailuka-Alenaio
IA	550,000	Bacon Creek
IA	120,000	Badger Creek
IA	845,000	Twelve Mile Creek
IA	307,000	Troublesome Creek
IA	1,180,000	Waubonsie Creek
ID	55,000	Sublett
ID	1,032,000	Hazelton Butte
IL	4,017,000	Upper Salt
IN	275,000	Stucker Fork
IN	389,000	Jordan Creek-Middle Main
IN	736,000	Bailey-Cox-Newtson
KS	1,000,000	Lower Elk River
KS	1,750,000	Upper Salt Creek
KS	500,000	Upper Wakarusa
KS	650,000	North Sector Upper Walnut
KY	10,000	Caney Creek
KY	210,000	Donaldson Creek
KY	76,000	Big Reedy
KY	800,000	Red Lick Creek
KY	195,000	Chamberlain Branch
LA	473,000	Lake Verret
LA	485,000	East Franklin
LA	600,000	Bayou Bonne Idee

LA	403,000	Cypress-Black Bayou
LA	413,000	Choctaw Bayou
MA	250,000	Washington Mountain Brook
MA	695,500	Diamond Brook
MD	653,000	Marshyhope
MD	90,000	Upper Choptank
ME	120,000	Libby Brook
ME	143,100	Lovejoy Pond
MI	340,000	Middle Branch of Cass River
MI	200,000	Indian Creek
MN	665,000	Belle Creek
MN	385,000	Canby Creek
MO	460,000	Lower Little Black
MO	208,000	Grindstone-Lost-Muddy
MO	170,000	South Fork Blackwater
MS	1,499,000	Deer Creek
MS	387,000	Bahala Creek
MS	300,000	Town Creek
MS	402,000	Big Creek
MS	31,000	Muddy Creek
MS	250,000	Bentonia
MS	500,000	Richland Creek
MS	73,000	Standing Pine
MS	106,000	Dry Creek
MS	70,000	Tallahaga
MS	57,000	Various Critical Area Treatment
MT	59,000	East Fork
MT	61,000	Big Spring Creek
NC	118,000	Bryant Swamp
NC	318,000	Dutchman Creek
NC	1,384,000	Crabtree Creek
NC	739,000	Town Fork
NC	930,000	Swift Creek
NC	28,000	Muddy
NC	64,000	Limestone
NC	14,000	Second Broad Creek
ND	940,000	Square Butte Creek
ND	250,000	St. Thomas-Lodema
ND	450,000	Upper Turtle Creek
NE	78,000	Blackwood
NE	250,000	Long Branch
NE	100,000	Bone Creek
NE	100,000	Maple Creek
NE	788,000	South Fork
NE	38,000	Gering Valley
NE	325,000	Oak-Middle Creek
NH	0	
NJ	120,000	Clove Brook
NJ	174,000	Pond Run
NJ	3,000,000	Assunpink
NM	4,000,000	Hackberry
NV	0	
NY	2,509,000	Deposit
OH	2,000,000	Middle Branch-Little Auglaize
OH	2,000,000	Rush Creek
OK	690,000	Cow Creek
OK	1,750,000	Upper Muddy Boggy
OK	395,000	Robinson Creek
OK	1,000,000	Lost Duck
OK	475,000	Tri-County Turkey
OK	25,000	Leader Middle Clear Boggy

OK	925,000	Critical Area Treatment (10 projects)
OK	175,000	Brushy Peaceable
OK	1,200,000	Lower Bayou
OK	210,000	Vegetative measures
OR	1,250,000	Wolf Creek
PA	1,200,000	Cross Creek
PA	3,500,000	Harmon Creek
PR	750,000	Anasco
RI	0	
SC	600,000	Oolenoy River
SC	2,950,000	Rabon Creek
SD	250,000	Spring Bull
TN	570,000	Three Cypress Creek
TN	1,213.000	Pine Creek
TN	105,000	Bogota
TX	800,000	Attoyac Bayou
TX	60,000	Aquilla-Hackberry Creek
TX	2,000	Chiltipin-San Fernando Creek
TX	40,000	Comal River
TX	1,000	Daport Creek
TX	4,000	Donohue Creek
TX	130,000	Ecleto Creek
TX	300,000	Elm Creek
TX	200,000	Farmers Creek
TX	450,000	Hitson C&L and Wasburn Streams
TX	10,000	Hog Creek
TX	59,000	Kent Creek
TX	650,000	Lakeview
TX	3,202,000	Leona River
TX	80,000	Lower Brushy Creek
TX	64,000	Lower Plum Creek
TX	80 000	Lower Running Water Draw
TX	970,000	McClellan Creek
TX	1,300,000	Paluxy River
TX	212,000	Pine Creek
TX	64,000	Plum Creek
TX	10,000	Running Water Draw
TX	24,000	Rush Creek
TX	150,000	Salado Creek
TX	40,000	Tehuacona Creek
TX	80,000	Upper Brushy Creek
TX	5,000	Upper Cibolo
TX	20,000	Upper Lake Fork
TX	2,925,000	Upper San Marcos
TX	5,000	Willow Creek
TX	80 000	York Creek
UT	70,000	Warner Draw
UT	384,000	Blue Creek-Howell
UT	241,000	Martin Lateral
VA	1,395,600	Buffalo River
VA	663,600	Slate River
VA	291,600	South Anna River
VA	25,000	Mountain Run
VA	8,200	Johns Creek
VT	110,000	Upper Buffalo Creek
VT	110,000	Brush Creek
WA	985,000	East Side Green River
WI	150,000	Pine River
WI	300,000	Upper Sugar River
WI	500,000	Bad Axe

WV	2,174,000	Upper Buffalo Creek
WV	1,400,000	Brush Creek
WY	465,000	Upper North Laramie
	105,695,600	TOTAL FINANCIAL ASSISTANCE

Fiscal Year 1983 Preliminary Distribution of Small Watershed Financial Assistance Funds by State

Although a tentative geographic distribution of funds was made when the FY 1983 budget request was developed, final decisions about the allocation of the 1983 funds have not been made. The allocation will be based on the workload reported by each State. The fiscal year 1983 planning budget, which projects the workload, was requested from each State on March 11, 1982. The information is due back on April 19, 1982 and will be used to develop the initial FY 1983 allowances by mid-August, 1982. Final decisions about funding for each project will be based on the total funds available and the readiness of each project to receive funds. The geographic distribution of P. L. 566 financial assistance funds by State that was developed earlier for the FY 1983 budget follows.

STATE	DISTRIBUTION	STATE	DISTRIBUTION
AL	$ 418,000	NV	$ 0
AZ	3,476,000	NH	0
AR	880,000	NJ	1,449,000
CA	968,000	NM	1,760,000
CO	396,000	NY	972,000
CT	0	NC	1,395,000
DE	325,000	ND	352,000
FL	178,000	OH	1,760,000
GA	502,000	OK	2,242,000
HI	145,000	OR	550,000
ID	38,000	PA	2,068,000
IL	1,272,000	RI	0
IN	292,000	SC	1,562,000
IA	1,321,000	SD	110,000
KS	1,716,000	TN	831,000
KY	568,000	TX	3,793,000
LA	1,133,000	UT	97,000
ME	102,000	VT	97,000
MD	327,000	VA	484,000
MA	422,000	WA	429,000
MI	88,000	WV	1,573,000
MN	462,000	WI	418,000
MS	1,408,000	WY	205,000
MO	369,000	PR	330,000
MT	25,000		
NE	342,000	Total, Financial Assistance	$39,650,000

Senator **Byrd**. I thank you. And I realize the constraints under which you have to labor, and I am not unsympathetic with those. I appreciate your answers to the questions.

Thank you, Mr. Chairman.

Mr. **Crowell**. We appreciate your interest in the small watershed projects.

Senator **Byrd**. And it will continue.

SUBMITTED QUESTIONS

Senator **Mattingly** [presiding]. Thank you to the SCS panel. The committee has additional questions which we will submit to you for response for the record.

[The following questions were not asked at the hearing, but were submitted to the SCS for response subsequent to the hearing:]

SOIL CONSERVATION SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

CONSERVATION OPERATIONS

Question: Your Explanatory Notes show a decline in the level of funding (1983 dollars) since 1978. Yet, your number of people supported from this funding has remained relatively level and has even increased in one or two of those years. How have you been able to accomplish this?

-- Through greater efficiency?
-- Through closing of field offices?
-- Or, are these people being supported by other line item funds?

Answer: The Soil Conservation Service has taken a number of steps through the years to maintain the highest level of technical assistance possible within approved funding levels for the Conservation Operations account. For example, a new system for controlling the allotment of funds to the States has resulted in greater utilization of available funds as evidenced by declining unobligated balances at the end of the fiscal year from 3.4 percent of the 1978 appropriation to 1.07 percent of the 1981 appropriation. Also, we have absorbed some funding reductions on a temporary basis by delaying planned replacements of vehicles and other needed equipment, cutting back on contractual services, reducing travel costs, and reducing the level of intermittent employees. While these are not actions that could be taken on a permanent basis without seriously impacting on our program effectiveness, they can and have been used on a short-term basis to smooth out the effects of fluctuating funding levels on our personnel levels. In spite of these actions, we are experiencing a steady decline in personnel levels for Conservation Operations as measured in total staff years from 11,357 in FY 1978 to an estimated 10,785 in FY 1983, a 5 percent decline. This has resulted in the closing of a few field offices and does, of course, require that we increase our efficiency in order to maintain program accomplishments. We are not, however, supporting these people with other line item funds.

It should also be noted that Executive Branch hiring freezes which are implemented from time to time, do effect overall personnel levels in terms of total staff years of effort and tend to cause personnel levels to fluctuate at different rates than related funding levels. Additionally, increases shown in permanent full-time staff years for FY 1982 and FY 1983 are related to the conversion of some "other" positions to full-time permanent and do not reflect an increase in total employment levels. In addition, for FY 1982, absorption of the cost of the October 1981 pay increase and the increase in the Executive pay cap effective in January, 1982, will likely result in a significant number of unfunded ceiling staff years in our Conservation Operations activities.

Question: It appears that the permanent full-time people are being maintained at the expense of the "other" employment category. What impact has the reduction of "other" employees had on the program and which States have been most severely affected?

Answer: The apparent reduction in "other" employment primarily represents a conversion of some part-time positions to full-time positions and does not really result in as extensive a loss of employees as the numbers suggest. Given the need to reduce Federal employment as a part of the President's Economic Recovery Plan, priority was given to maintaining the professional nature of the Soil Conservation Service organization with emphasis on providing a primarily full-time permanent workforce. The kinds of nontechnical duties normally performed by "other" employees can be more easily provided from other sources such as conservation district employees and through the use of contracts and cooperative agreements. In this way any adverse impact from the loss of "other" employees can be minimized. This policy is being implemented on a nationwide basis so no particular States will be more severely affected than others.

Question: What level of additional funding and personnel would be required to maintain the level of assistance provided in conservation operations as was provided to districts in 1981 fiscal year and 1982 fiscal year.

Answer: It would take an appropriation of $345.0 million in FY 1983 to maintain the same level of assistance as provided in FY 1981 and $328.7 to maintain the FY 1982 level. This would take into account the impact of inflation on operating costs and would provide funds for the cost of the October 1981 pay increase which is being absorbed in fiscal year 1982 but is needed to maintain the same level of program activity. These funding levels would provide about 10,900 and 10,500 staff years of assistance respectively.

TECHNICAL ASSISTANCE

Question: In view of the emphasis placed in your budget on targeted assistance and the fact that all of the increase in conservation technical assistance is programmed for targeted areas, what impact will this have on Soil Conservation Service personnel and in providing needed assistance to each soil and water conservation district to carry out their programs?

Answer: The FY 1983 budget proposes to target a total of $12.5 million or 5 percent of our total technical assistance funds. The remaining 95 percent will continue to provide funding for SCS technical assistance activities in all conservation districts in order to maintain current conservation systems to prevent further deterioration of the Nation's soil and water resources. The $3 million increase reflected in the budget for targeting will add 96 staff years to these efforts. It will not have an impact on the employment in nontargeted areas. Other factors, including a decrease of about 300 staff years related to the decrease in the Agricultural Conservation Program, will affect the base level of assistance in most districts.

SOIL AND WATER CONSERVATION GRANTS

Question: During the recent hearings on the 1981 Farm Bill, Deputy Assistant Secretary Siegel discussed the grants proposal and indicated that the Administration wanted a considerably higher level than indicated in the 1983 budget proposal. What was the Department's original proposal to the Office of Management and Budget and is this amount ($10 million) different from that original proposal?

Answer: The Department originally proposed a $55.12 million variable matching grants program which was multi-purpose in nature including both technical and financial assistance as well as such other purposes as information and education, research, pilot projects, and others as suggested by the Governor and agreed to by the Secretary. The proposal was also broader in coverage, including funds for work in the Nationally targeted areas as well as an increment for basic soil maintenance which would have provided for nationwide coverage to supplement existing USDA conservation programs.

Question: What is the source of the funds for the grants program? Has it been taken from project-type programs, e.g. P.L. 534 and P.L. 566?

Answer: The grants program is not a substitution for any existing program. Rather, it is a new initiative designed to supplement our existing technical assistance program. Reductions are recommended for our project-type programs such as P.L. 566 and P.L. 534 watershed projects because of their inflationary nature and the fact that they can absorb temporary funding reductions without destroying the basic program delivery system until such time as the national economic situation improves. The decision to move forward with a grant program was not made in the context of a trade off with reductions in our watershed program or any other program. Obviously a $10 million initiative is not a trade off to a $76 million decrease.

Question: How will this program be administered? What will the administration costs be?

Answer: Federal matching grant funds would be made available to local units of government through the State soil conservation agency in nationally targeted geographical areas based on the provisions of Subtitle D, Title XV of the Agriculture and Food Act of 1981, Public Law 97-98. The basis for the transfer of funds would be a grant agreement entered into by the conservation district or the State soil conservation agency and the State Conservationist of the Soil Conservation Service

Ongoing Federal administration costs are estimated to be 6 percent of total grant funds or $600,000. These costs include technical review of local programs and plans, preparation of grant agreements, audit and review functions, and evaluation and monitoring of progress. These functions will be performed by the Soil Conservation Service in accordance with established rules and regulations covering all Federal grant-in-aid programs.

Question: By whom and how will these grants be targeted?

Answer: The Secretary will select and target matching grant funds to geographic land areas having critical soil erosion or upstream flooding problems of national significance based on recommendations of the Soil Conservation Service. The selections will be based on information from National Resource Inventories, River Basin Studies, from studies carried out under the Soil and Water Resources Conservation Act of 1977, and from other sources including other USDA agencies.

Question: How does this grant proposal fit in with the reduced level of funding proposed by the Agricultural Stabilization and Conservation Service's Agricultural Conservation Program?

Answer: The grant program as proposed in the 1983 budget for the Soil Conservation Service would be available only for technical assistance and not for cost-sharing as is provided under the Agricultural Conservation Program (ACP). Therefore, it is not intended as a substitute in any way for the ACP Program. It is, rather, a way to increase needed technical assistance at the local level without adding to the Federal workforce. Efforts will be concentrated on low cost conservation measures such as conservation tillage, which requires no financial assistance.

Question: Is the soil and water conservation grant money being put into the budget at the expense of other programs? I understand this is "pass-through" money. Isn't this money taken from the Soil Conservation Service and given to other agencies of state and local government? If so, to what agencies? What programs? Do you feel that those agencies who would get this grant money can provide better assistance in the conservation of our resources than the Soil Conservation Service is now doing?

Answer: The grant program is considered an appropriate mechanism to increase conservation progress in the long run by encouraging greater involvement on the part of both State and local units of government in the conservation effort. It is not being proposed as a replacement for existing Federal programs but, rather, is a supplement to increase technical assistance activities for carrying out conservation work on nonfederal lands with critical resource problems.

We believe a matching grants initiative will buy more technical assistance at less Federal cost than would an equivalent increase in conservation technical assistance funds. It would not result in increased Federal employment and would provide more opportunity for local employment and initiative in conservation. The matching grants program is an effort to strengthen Federal, State, and local commitment to soil conservation and is consistent with the President's new federalism policy.

GREAT PLAINS CONSERVATION PROGRAM

Question: In 1982, the Congress supported a small increase in appropriations for the Great Plains Program thus indicating our feeling that this work was much needed in the Plains area. What was the Administration's objective in proposing to cut this needed conservation program by nearly a third of fiscal year 1983, and do you visualize further cuts will be proposed in 1984?

Answer: The program decrease is to support national economic recovery through a general reduction in construction and related programs. The requested level was selected to provide the ability to maintain the capacity for servicing existing contracts, but to reduce significantly the signing of new contracts. The reduction was deemed to be in line with similar reductions in ACP. The request for our 1984 budget will take into consideration the existing and projected economic conditions at that time. Therefore, we can not, with any accuracy, predict what budget level will be proposed for the Great Plains Program.

Question: Again, you have requested a substantial decrease from fiscal year 1982 and 1981 for the Great Plains Conservation program. Will you please explain in some detail the effects of these decreases over the past few years on the Great Plains Conservation Program.

Answer: From 1973 to 1982, the Great Plains Appropriations in actual dollars have fluctuated modestly between $18.1 million and $22.4 million. However, when adjusted for the effects of inflation, there has been a 42 percent decrease in the purchasing power of the dollars during the same period. This decrease, along with other factors such as an increase in average acres per contract and lower percentage of funds available for cost sharing, has had a significant impact on the performance of the program. For example, in 1973, 2,565 new contracts were signed covering 4.3 million acres; in 1978, 1,702 contracts were signed covering 4.1 million acres; and in 1981, only 725 contracts were signed covering 2.1 million acres. The average cost per contract has increased from $4,902 to $16,268 during the same period.

The FY 1983 request will provide for signing approximately 350 new contracts covering 1 million new acres, a reduction of 50 percent from FY 1982. The number of acres for applications awaiting contracts will increase from 13,666,000 in FY 1982 to 15,265,000 in FY 1983. The number of farms and ranches serviced will drop about 14 percent from 10,569 in FY 1982 to 9,119 in FY 1983.

RESOURCE CONSERVATION AND DEVELOPMENT

Question: The 1981 Farm Bill included for the first time a single comprehensive authority for the Resource Conservation and Development Program. Over the last two or three years the Administration has proposed a phaseout of this program. Each time Congress has restored the funding.

Why did this budget proposal terminate the Resource Conservation and Development Program in the year immediately following the year the new authorization was passed by Congress and signed by the President?

Answer: The Resource Conservation and Development (RC&D) Program has been studied by the Department and the General Accounting Office (GAO). Departmental studies were under the Soil Conservation Service, Office of Inspector General, and a Special Task Force. The GAO effort was made in accordance with the House of Representatives Conference Report No. 96-553 (October 24, 1979) on agriculture, rural development, and related agencies' appropriations for fiscal year 1980. After review of the results of these studies, it was determined that more demonstrable and significant benefits could be derived through other programs.

Question: This Subcommittee feels that the Resource Conservation and Development Program is quite a good program and should continue to be funded. Do you foresee that there will be any turnabout in the USDA stand concerning the Resource Conservation and Development Program?

Answer: As a result of the questionable benefits reported in the several studies on RC&D and the Department's evaluation of the priority use of available funds, it is difficult to defend the continuation of RC&D. As such, we do not expect a turnabout in the Department's position on RC&D in the near future.

Question: Again, this program is proposed for termination by the end of fiscal year 1983. Are there sufficient resources and time to fund all those projects that local sponsors have already made some expenditure for with an understanding that the Federal Government would participate?

Answer: No, only those contracts awarded in prior years will be completed. This funding level will not complete all "critical" measures, which are those with one or more contracts completed or underway but for which additional contracts are needed to complete the measures in the project area. In a large number of these cases, significant sponsor investment has already been made in anticipation that the project would be carried out to completion.

Question: What is the current backlog of unfunded projects?

Answer: On October 1, 1981, there were 332 projects started but not yet completed. These projects would require about $59 million to be completed of which only $15 million could be obligated in FY 1983 if the funds were available.

In addition, there were 530 projects which have not yet been started, but are ready for funding. These projects would require about $70 million to be completed, of which only $20 million could be obligated in FY 1983 if the funds were available.

SNOTEL SITES IN ALASKA

Question: What is the status of the scheduled installation of SNOTEL sites in Alaska?

Answer: A total of 40 SNOTEL sites are currently planned for installation in Alaska. As of the end of fiscal year 1981, ten of these were operational. We plan to install an additional seven sites in FY 1982. The FY 1983 budget includes funds for the installation of fifteen more sites so that a total of 32 SNOTEL sites would be in place in Alaska by the end of FY 1983.

PLANT MATERIALS CENTERS

Question: You have proposed an increase of $46,000 for Plant Materials Centers. What is the status of this program?

Answer: The Soil Conservation Service operates twenty Plant Materials Centers throughout the country for the purpose of testing, selecting, and providing for the commercial production of plants suitable for erosion control, special conservation purposes, and adaption to unusual soil and site conditions. Three other centers are operated by other cooperating agencies with technical assistance provided by SCS. Over 150 new conservation plant varieties from this program are in large scale use in combating the many problems encountered in a total program of soil, water, and related resources conservation.

SCS Plant Materials Centers released 11 new conservation plants to commercial seed growers and nurseryowners in 1981. The releases included six grasses, two shrubs, one legume, one forb, and a cereal rye. Four of the grasses, suited to the Southwest, control erosion and provide food for livestock and wildlife. One native grass, suited to the Coastal Plain and Piedmont area, stabilizes gravel mines and infertile sandy soils. Another grass, suited to parts of California, stabilizes critically eroding areas and provides dryland range forage. The shrubs, both suited to the Southwest, provide food for livestock and wildlife and control erosion. A native legume, suited to Oregon and other western areas, controls erosion and provides wildlife food. An evergreen forb, suited to the Intermountain Region, is used in mixtures of range seeding, revegetating minespoils and other disturbed areas, and for wildlife food and cover. A cereal rye, suited to the Northeast, provides excellent cover for cold soils.

For FY 1982 and 1983 we anticipate the release of 15 new conservation plants in each of those years.

1983 AGENCY ESTIMATE

Question: Would you please provide for the Subcommittee the agency's recommended figures to the Department for the fiscal year 1983 budget and the Department's recommended figures to the Office of Management and Budget?

Answer: The following table provides the requested budget figures.

UNITED STATES DEPARTMENT OF AGRICULTURE
Soil Conservation Service
FY 1983 Appropriation History
($ in thousands)

Appropriation	Revised FY 1981	FY 1982 Appropriation Act	FY 1983		
			Agency Estimate 1/	Department Estimate 1/	Budget Estimate 1/
Conservation Operations:					
Technical Assistance	$234,035	$233,916	$268,987	$250,519	$250,460
Inventory and Monitoring	17,063	16,127	22,322	19,810	19,810
Soil Surveys	48,434	49,254	60,273	52,673	52,614
Snow Surveys and Water Forecasting	3,581	3,616	5,378	3,878	3,878
Operation of Plant Materials Centers	3,145	3,558	4,931	3,781	3,781
Resource Appraisal and Program Development	5,605	4,338	7,041	6,041	6,037
Conservation Technology Development, Application and Transfer	--	--	1,000	--	--
Dam Safety	--	--	2,992	--	--
Total, Conservation Operations	311,863	310,809	372,924	336,702	336,580
Soil and Water Conservation Grants	--	--	55,120	55,120	10,000
River Basin Surveys and Investigations:					
USDA Cooperative Studies	13,273	11,326	14,091	12,021	12,342
Flood Plain Managemnt Assistance	1,664	1,734	2,157	1,827	1,827
Interagency Coordination Program Formulation	3,386	2,440	2,895	2,895	2,574
Total, River Basin Surveys and Investigations	18,323	15,500	19,143	16,743	16,743
Watershed Planning Authorized by PL-534	10,813	8,690	14,462	9,152	9,152
Watershed and Flood Prevention Operations:					
Flood Prevention Operations, PL-534:					
Planning	1,285	1,320	1,350	1,200	1,200
Technical Assistance	11,573	11,881	12,231	10,809	10,809
Financial Assistance for Construction:					
1. Direct Federal Contracting	7,436	7,134	12,750	1,849	1,849
2. Payment for Contracting by Local Sponsors	3,001	2,880	4,720	820	820
Loan Services	205	219	226	181	181
Subtotal, Watershed Protection Operations	23,500	23,434	31,277	14,859	14,859
Emergency Watershed Protection Operations	10,000	10,000	10,000	10,000	10,000
Small Watersheds authorized by PL-566:					
Technical Assistance	62,413	62,119	51,110	52,841	52,841
Financial Assistance for Construction:					
1. Direct Federal Contracting	62,784	62,689	65,662	25,880	25,880
2. Payment for Contracting by Local Sponsors	33,407	33,357	68,030	13,770	13,770
Loan Services	420	446	460	371	371
Subtotal, Watershed Operations	159,024	158,611	185,262	92,862	92,862
Total, Watershed and Flood Prevention Operations	192,524	192,045	226,539	117,721	117,721
Great Plains Conservation Program:					
Cost-sharing Assistance	11,847	11,946	22,244	13,444	6,277
Cost-share Programming and Contract Admin	2,821	3,057	3,371	3,371	2,890
Technical Assistance	5,996	6,497	7,161	7,161	6,141
Total, Great Plains Conservation Program	20,664	21,500	32,776	23,976	15,308
Resource Conservation and Development:					
Technical Assistance	19,491	14,316	13,015	10,146	10,146
Financial Assistance	14,345	11,474	15,746	--	--
Loan Services	210	210	166	166	166
Total, Resource Conservation and Development	34,046	26,000	28,927	10,312	10,312
Subtotal, SCS	588,233	574,544	749,891	569,726	515,816
RAMP	(10,280)	(4,300)	(60,000)	(4,300)	(3,650)
Trust Funds	760	900	900	900	700
TOTAL, SOIL CONSERVATION SERVICE	$588,993	$575,444	$750,791	$570,626	$516,516
SCS Total Staff-Years of Employment	14,764	14,700	16,004	14,564	13,800

1/ Adjusted to reflect the October 1981 pay costs.

SCS:Budget Formulation:2-1-82

COLORADO RIVER BASIN SALINITY CONTROL STUDIES

Question: Please explain the 100 percent decrease for Colorado River Basin Salinity Control Studies.

Answer: The decrease will suspend planning and terminate the ongoing studies until implementation operations progress to a point where new planning is necessary. Project implementation has not kept pace with the related planning efforts. This decrease will avoid the preparation of plans which may become outdated before implementation could be initiated.

IMPACT OF 1983 BUDGET ON RCA OBJECTIVES

Question: I am sure you and your staff have had an opportunity to analyze the proposed budget as it would affect your agency. What will be the impact of this proposed budget on the Soil Conservation Service program nationwide in achieving the objectives of erosion control and upstream flood prevention as determined by the Resource Conservation Act?

Answer: The FY 1983 budget addresses as the highest priority, the reduction of soil erosion on agricultural lands to maintain productive capability. As a beginning towards addressing this priority objective, the 1983 budget proposes to expand our program of targeting technical assistance to those geographical areas experiencing critical soil losses. It also proposes the initiation of a matching grants program for technical assistance to encourage the strengthening of the existing Federal, State, and local partnership in conservation. We would also strengthen a number of our supporting programs in critical areas targeted for accelerated technical assistance including soil interpretations, inventory and monitoring, and River Basin studies.

It is true that our Watershed and Flood Prevention Program which traditionally provides solutions to upstream flooding problems is slated for significant decreases in FY 1983. This does not indicate a change in priorities, but rather recognizes the more urgent need to lessen inflationary pressures on the economy at this time. We will continue our planning for these projects, though at a reduced rate, in anticipation that these projects will be implemented. As the economic situation improves, our implementation program will concentrate efforts on completing work already underway.

FUNDING AND PERSONNEL NEEDED FOR RCA PRIORITIES

Question: What level of funding and how many personnel would be required to provide the assistance needed to install the erosion control and flood reduction programs that are needed and that have been established as number 1 and number 2 priority items in the Resource Conservation Act?

Answer: If there were no changes in program design, reducing soil erosion to the non-degradation level by the year 2030 and flood damages by 16 percent by the year 2000 would require an annual increase of about 13 percent; compounded in constant dollars, for 5 years and expenditures held at that level through 50 years. The level of funding by the fifth year would be $1,019 million and require about 22,000 staff years.

Water Projects

Question: Last fall, the Senate was notified that new water projects planning guidelines were being considered, which, by administrative action, would modify planning and installations of watershed projects. The Senate has a number of significant concerns which were expressed to Secretary Block in letters co-signed by 29 Senators. At this time, I would like to make a copy of this letter a part of the record.

So far, there has been no response to our concerns. Why?

(The letter follows:)

LETTER FROM VARIOUS MEMBERS, U.S. SENATE

The Honorable John R. Block
Secretary
U. S. Department of Agriculture
Washington, D. C. 20250

Dear Mr. Secretary:

The Senate has recently been notified that certain water project planning guidelines are being considered that would modify the planning and installation of watershed projects under the Watershed Protection and Flood Prevention Act and related statutes. The proposed changes appear to be contrary to the intent of Congress. We strongly recommend that the programs administered by the Soil Conservation Service be exempted from the proposed planning guidelines and related procedures.

Land treatment in a watershed is a long-term investment to protect the soil resource base and safeguard the capability for future food and fiber production. Under the proposed water policy guidelines and evaluation procedures, soil conservation measures would be subject to short-term economic tests that would not fully take into account the long-term benefits for the resource base and its effect on the local and national economy over the longer run. The national economic benefit test would be mandatory whenever cost-shared soil conservation measures are included in a watershed or flood prevention project that includes flood prevention or other structural measures. Imposition of these tests would reduce the emphasis on watershed protection as a primary purpose of the projects.

Another major concern is the role of the Cabinet Council on Natural Resources and Environment in approval of any plan other than the plan with the greatest net national economic benefits. This would have the effect of taking decision-making away from state and local governments in addressing local and regional concerns during plan formulation and selection. For example, project sponsor objectives might include preservation of prime farmland, protection of water quality in a water supply reservoir, or improvement of wildlife habitat. If project measures to meet these objectives did not have net national economic benefits, neither the local people nor the Secretary could approve inclusion of cost-shared measures for these purposes.

This would greatly reduce the flexibility in planning for the social well-being of a low income or economically deprived area. In addition, it would tend to shift future project activity from low to high property value areas. Such tendencies would seem not to be in character with the flexibility needed by the Secretary to manage and carry out USDA's recently announced emphasis on rural development and soil conservation.

The Cabinet Council on Natural Resources and Environment is chaired by the Secretary of the Interior and has several members who may not fully appreciate the complexity or intent of agricultural conservation programs. Congress, through authorizing legislation, specifically designated the Secretary of Agriculture as the official responsible for Soil Conservation Service water resource projects. We believe the Secretary of Agriculture should not, and cannot, relinquish approval authority to the Cabinet Council without Congressional approval.

Other programs, such as those administered by the U. S. Army Corps of Engineers and Bureau of Reclamation, address regional and national concerns through much larger projects. It is not appropriate that the same officials and guidelines be used to administer both types of programs.

We are also concerned about proposed changes in cost-sharing that would have the cost of all services produced by water projects paid for by the direct beneficiaries of these services. Other concerns include changes in how the discount rate is determined and project financing.

We believe that the proposed changes are not compatible with the intent of Congress, which is to take into consideration local problems and concerns. Therefore, we strongly recommend that you take such action as may be necessary to assure that the programs administered by the Soil Conservation Service are exempted from the proposed new water project planning guidelines and related procedures. Such exemption would be compatible with the previously announced exclusion of other programs administered by the Department of Agriculture and the Department of the Interior. The exemption would also be compatible with the recommendations recently announced by the Department of Agriculture in accordance with the Soil and Water Resources Conservation Act of 1977.

Sincerely,

Tom Eagleton
THOMAS F. EAGLETON

Thad Cochran
THAD COCHRAN

WALTER D. HUDDLESTON

MARK ANDREWS

John Melcher
JOHN MELCHER

Roger W Jepsen
ROGER W. JEPSEN

Max Baucus
MAX BAUCUS

Bob Dole
ROBERT DOLE

Jennings Randolph
JENNINGS RANDOLPH

Jesse Helms
JESSE HELMS

Jim Exon
J. JAMES EXON

Rudy Boschwitz
RUDY BOSCHWITZ

Paula Hawkins
PAULA HAWKINS

Alan J Dixon
ALAN J. DIXON

Charles H Percy
CHARLES H. PERCY

John C. Stennis
JOHN C. STENNIS

Russell Long
RUSSELL B. LONG

Nancy Landon Kassebaum
NANCY LANDON KASSEBAUM

Harrison A Williams Jr.
HARRISON A. WILLIAMS, JR.

Wendell Ford
WENDELL H. FORD

EDWARD ZORINSKY

QUENTIN N. BURDICK

JAMES ABDNOR

J. BENNETT JOHNSTON

DAVID L. BOREN

HOWELL HEFLIN

JOHN C. DANFORTH

Jim Sasser
JIM SASSER

DON NICKLES

cc: The Honorable James Watt
Secretary, Department of the Interior

Mr. Gary Carruthers
Assistant Secretary, Department of the Interior

Mr. William Gianelli
Chairman, Assistant Secretaries Working Group on Water Resources
Cabinet Council on Natural Resources and Environment
Department of the Army

Mr. John Crowell
Assistant Secretary, Department of Agriculture

Answer: We have been awaiting final actions on the proposed guidelines by the Cabinet Council on Natural Resources and Environment and the U.S. Water Resources Council.

Question: What progress has been made in responding to each of the concerns expressed?

Answer: A letter of response was prepared for signature in the Office of the Secretary. It was signed on March 18, 1982, by Assistant Secretary Crowell.

Question: Please provide this Subcommittee with a detailed response of USDA's position on each of the points of concern.

Answer: A copy of the response to the letter co-signed by 29 Senators is hereby provided to the Subcommittee.

(The letter follows:)

LETTER FROM JOHN B. CROWELL, JR.

MARCH 18, 1982

Honorable Thad Cochran
United States Senate
Washington, D.C. 20510

Dear Senator Cochran:

We appreciate being informed of your concerns about the water project planning guidelines that affect the planning of watershed projects administered by the Soil Conservation Service. We have given further consideration to your letter of December 21, 1981.

In response to your concerns, we recommended reconsideration of the major policy positions which were affirmed as a tentative policy statement by the Cabinet Council on Natural Resources and Environment. Our specific recommendations were considered by the Assistant Secretaries' Working Group on Water Resources and the Cabinet Council.

One major policy position has been modified. The guidelines for water resources projects planning will provide discretion for the Secretary of Agriculture to grant exceptions to the stipulation that the plan with the greatest net economic development benefit is to be selected. The Secretary may grant an exception when there are overriding reasons for recommending another plan based upon other Federal, State, local and international concerns.

The provision for the Secretary of a Department or head of an independent agency to approve exceptions maintains the authority of the Secretary of Agriculture for approving and recommending watershed projects. No approval authority is relinquished to the Cabinet Council.

Discretion to recommend an alternative plan other than the plan with the greatest net economic development benefit preserves the opportunity to place emphasis on watershed protection as a primary purpose of watershed projects. Cost-shared soil conservation measures and measures for preserving prime farmland, protecting water quality, improving wildlife habitat, and improving the social well-being of a low income or economically deprived area may be included in recommended plans when there are adequate reasons for doing so.

With these changes, we believe the proposed guidelines will improve the planning process and permit increased efficiency and effectiveness in administering the watershed project program. The change from rules to guidelines will provide the flexibility needed to apply the guidance to large and small projects. For these reasons and the need for technically sound evaluations of watershed projects, we did not recommend exempting programs administered by the U.S. Department of Agriculture.

The modified guidelines will be published in the Federal Register on March 22, 1982, for public review and comment. This will provide an additional opportunity to identify concerns and make changes to ensure that the guidelines are appropriate for planning watershed projects.

Proposed changes in financing and cost sharing are being considered, but no specific proposals have been made to date. Changes in financing and cost sharing would require modifying the Watershed Protection and Flood

Prevention Act; therefore, the Senate will have full opportunity to consider the merit of any proposed changes. We do not anticipate a proposed change in how the discount rate is determined.

Sincerely,

/s/ JOHN B. CROWELL, JR.

JOHN B. CROWELL, JR.
Assistant Secretary for
Natural Resources and Environment

NOTE: Identical letter sent to 45 Senators.

Question: What stance has USDA taken in the Cabinet Council to modify the proposed guidelines to satisfy the Senate's concerns?

Answer: USDA recommended reconsideration of the major policy positions which were affirmed as a tentative policy statement by the Cabinet Council on Natural Resources and Environment. In particular, USDA raised issues relative to the Secretary's authority to recommend plans other than the plan with the greatest net national economic development benefits. As a result, the Cabinet Council agreed that the guidelines should be modified to provide discretion for the Secretary to grant exceptions to the stipulation that the plan with the greatest net economic development benefit is to be selected.

Question: What actions have the Cabinet Council, the Office of Management and Budget, and other Departments taken on the proposed guidelines and the Senate's concerns?

Answer: The Cabinet Council, the Office of Management and Budget, and other Departments received copies of the letters from the Senate and used this input in developing and expressing their views during decisionmaking by the Cabinet Council. The Cabinet Council has reached agreement on proposed guidelines which have been modified to provide discretion for the Secretary of a Department or head of an independent agency to approve exceptions to the stipulation that the plan with the greatest net national economic development benefit is to be selected. The U.S. Water Resources Council published the proposed guidelines in the Federal Register for public review and comment on Monday, March 22, 1982.

Question: What are the remaining steps in propagating new water project planning guidelines?

Answer: At the close of the public comment period, the Cabinet Council and the U.S. Water Resources Council will analyze the comments received, make appropriate changes, and then publish the final guidelines.

Question: How and when will State and public input to the new guidelines be solicited?

Answer: Copies of the proposed guidelines will be mailed to the Governor of each State to solicit State input. Public input is being solicited through the Federal Register publication of March 22, 1982, through May 21, 1982.

Question: When would the new guidelines, as modified to reflect the Senate's concerns, be implemented and what categories of projects will be affected?

Answer: The new guidelines are to be implemented 120 days after the final guidelines are published in the Federal Register. They will apply to watershed project plans which are completed more than 120 days after issuance of the new guidelines.

Question: What new cost share proposals are being considered?

Answer: New cost share proposals which are being developed are guided by the principles that the cost of all services produced by water projects should be paid for by the direct beneficiaries of these services and that water project services should be provided by the public or private organizations that can provide them at the lowest real cost. The Cabinet Council has not acted on any specific proposals to date.

Question: Will the cost share proposals require legislation to implement?

Answer: This question cannot be answered until the cost share proposals are finalized; however, any change in cost sharing for flood control in watershed projects would require legislative change. Other changes in cost sharing would not require legislation to implement.

Question: Will the new cost share arrangements be applied to projects already authorized?

Answer: The Cabinet Council has not made a decision on this. There is potential for the new cost share arrangements to be applied to projects which have been authorized but have not received a construction start.

WATER RESOURCE PROGRAMS

Question: I notice that the 1983 budget contains a drastic reduction in funding for the water resources programs of the Soil Conservation Service. It seems apparent to me this is going to have a severe impact on these programs. How do you assess this impact in terms of your ability to carry out those projects that are planned and in progress and the impact upon your personnel who are involved in the water resources programs?

Answer: Funding for watershed operations authorized by Public Law 534 and Public Law 566 will continue at about sixty percent of the fiscal year 1982 level. Funding will be directed towards ongoing work with no construction starts being initiated. The $8,750,000 reduction in funds for the Public Law 534 program will result in one subwatershed construction start not being initiated and three subwatershed projects not being completed. The $65,749,000 reduction in funds for the Public Law 566 program will result in five new construction starts not being initiated and up to twenty projects not being completed.

The impact of the reduced fiscal year 1983 funding level on Soil Conservation Service personnel involved in the water resources program will not be as immediately felt as the reduced new construction level. The $129.5 million that we plan to obligate for construction in these two programs during fiscal year 1982 will require technical assistance support associated with the installation of the measures in both fiscal years 1982 and 1983 for contracts that are not completed in 1982. New construction for ongoing work that is funded in fiscal year 1983 also will require technical assistance to support the 1983 contracts. The need for personnel will decrease during fiscal year 1983 as the 1982 and 1983 construction and land treatment work is completed. We anticipate a reduction in force of up to 410 employees working on water resource programs who would not be needed and/or could not be funded in the water resources or other Soil Conservation Service programs. This would represent a reduction of approximately nineteen percent of the employees funded in the two watershed programs authorized by Public Law 534 and Public Law 566.

P.L. 534 - FLOOD PREVENTION OPERATIONS

Question: In 1979 Congress requested the Department to provide the appropriate committees of Congress with a budget plan for completing the remaining P.L. 534 Flood Prevention Watersheds program. Early in 1981, your staff met with the Senate Appropriations Committee staff to discuss the findings of the Department. At that time, it appeared that approximately one-half of the work had been completed. Much of the remaining work was in Mississippi. The proposed funding decrease of $9,042,000 for the P.L. 534 program would appear to severely curtail activities to complete the remaining work.

How much of these funds will be used to pay personnel and how much will be available for construction activities?

Answer: The net reduction proposed for appropriated funds is $8,575,000. There is a program reduction of $9,042,000 and an increase of $467,000 to fund the added cost of the October, 1981 pay raise. The total appropriation for the fiscal year 1983 flood prevention program is proposed to be $14,859,000. The Soil Conservation Service will spend $12,212,000 and other USDA agencies will spend $2,647,000 to implement the program. Payments for personnel related costs to provide technical assistance necessary for land treatment and construction is estimated to be $9,543,000 in the Soil Conservation Service. Financial assistance for construction will amount to $2,669,000. The $2,647,000 to be used by other USDA agencies will be primarily for technical assistance.

Personnel costs will be significantly more as a proportion of the total appropriation in fiscal year 1983 for two reasons. First, total funds available will be reduced by almost 50 percent, and the technical assistance needed to support the construction program started in FY 1982 must continue into FY 1983 until the construction is completed. This two year personnel cost is not as noticable for level or increased funded years. In a declining fund situation, the two year costs become very apparent. The second reason that the personnel cost is high in relation to the construction costs is due to the need to reduce staff years by almost 17 percent. The reduction is greater than the usual turnover rate. Prospects of shifting these personnel to other USDA programs is very small because of the reductions in other

SCS appropriations. Therefore, there will be a one-time cost associated with the small reduction in force.

Question: How will each of the P.L. 534 Flood Prevention Watersheds be affected in terms of people and construction dollars?

Answer: The current estimate of funds for technical and financial costs for the eleven watersheds for fiscal year 1982 and 1983 is as follows. Adjustments may be made depending upon funds available and needs in each of the watersheds. Funds used by other USDA agencies are allotted in lump sum and are primarily for technical assistance, loan services and economic impact studies. Personnel are not specifically allocated to each project. However, the dollars allocated for financial assistance are indicative of personnel changes by project, and are consequently shown on the following table.

ESTIMATED
OBLIGATIONS IN THOUSANDS OF DOLLARS
FISCAL YEAR 1982

	Financial Assistance SCS	Technical Assistance SCS	Other USDA Agencies	Total
Loan Services, FmHA.......	--	--	219	219
Colorado (Middle), Texas..	1,210	723	--	1,933
Coosa, Georgia, Tennessee.	31	15	--	46
Little Sioux, Iowa........	1,402	1,328	20	2,750
Little Tallachatchie, MS..	978	617	260	1,855
Los Angeles, California...	--	--	1,389	1,389
Potomac, MD., PA., VA., and W.VA...............	2,931	1,313	250	4,494
Santa Ynez, California....	1,856	774	729	3,359
Trinity, Texas............	1,376	3,139	67	4,582
Washita, Oklahoma, Texas..	1,612	1,963	166	3,741
Yazoo, Mississippi........	2,066	2,040	1,240	5,346
Total..................	13,462 a/	11,912	4,340	29,714
		FISCAL YEAR 1983		
Loan Services, FmHA.......	--	--	181	181
Colorado (Middle), Texas..	136	636	--	772
Coosa, Georgia, Tennessee.	--	--	--	--
Little Sioux, Iowa........	219	1,155	12	1,386
Little Tallachatchie, MS..	131	462	156	749
Los Angeles, California...	--	--	822	822
Potomac, MD., PA., VA., and W. VA..............	505	1,091	148	1,744
Santa Ynez, California....	244	689	432	1,365
Trinity, Texas............	485	2,274	40	2,799
Washita, Oklahoma, Texas..	453	1,666	112	2,231
Yazoo, Mississippi........	496	1,570	744	2,810
Total..................	2,669 a/	9,543	2,647	14,859

a/ These amounts include the State, Technical Service Center and National Office costs needed to support the program.

Question: How many projects will be completed in fiscal year 1982 and fiscal year 1983?

Answer: All work for fiscal year 1982 and 1983 will be concentrated on ongoing subwatershed projects started prior to fiscal year 1982. We estimate that we will complete three of the total 388 total subwatershed projects in both fiscal years 1982 and 1983.

However, none of the nine uncompleted watersheds will have all the subwatershed work completed in either year.

WATERSHED AND FLOOD PREVENTION OPERATIONS

Question: Since the Agriculture Appropriations Act does not include specific projects as line items, but instead funds the program as a whole, how does an Administration restriction on initiating new projects reduce outlays?

Answer: The restriction on initiating new project construction starts does not necessarily reduce the outlay of funds for that year unless the funding for new construction starts is also reduced. However, outlays in future years are reduced because the commitment to start and complete additional work is avoided. The no new start policy will allow the use of all available financial resources to be applied to work the Service is already committed to complete. Concentrating available resources on the completion of projects that have already been started will also avoid future inflation costs.

Question: What is the nature of any communications between the Soil Conservation Service (SCS), USDA, and the Office of Management and Budget concerning construction starts? Please provide for the record copies of all such communications.

Answer: Consistent with Departmental instructions, the fiscal year 1983 budget submission by the Soil Conservation Service (SCS) provided for a number of alternative program levels. For watershed construction, the agency requested a 37 percent funding increase above the 1982 budget and proposed new construction starts at this funding level. However, new construction starts were not included at more constrained funding levels. In its review, the Department selected a constrained funding level and did not propose new construction starts for 1983. OMB subsequently approved the Department's fiscal year 1983 proposal. A copy of the Department's submission is attached.

With respect to fiscal year 1982, the President's budget did not propose new construction starts. However, the Department anticipated that the Congress would provide for such starts and therefore included fiscal year 1982 construction starts as part of its fiscal year 1983 budget proposal to OMB. The Department was subsequently advised informally that no new construction starts should be initiated in fiscal year 1982. This decision was agreed to by the Department and was reflected in the official apportionment for the program. A copy of the approved apportionment is attached.

UNITED STATES DEPARTMENT OF AGRICULTURE
Soil Conservation Service
1983
Executive Summary

Program Unit Small Watershed Plan Implementation

LEVEL	BA (000's)		PFT Staff Years	Description
1981	$159,024	1483	5 Starts	-Provides measures for watershe protection, flood prevention, Ag. Water Mgt. recreation, fish & wildlife and other features of watershed work project.
1982				
January Budget	142,890	1508	0 Starts	
Revised Budget	133,611	1508	0 Starts	
House Action & Senate	158,611	1508	25 starts	

1983 Agency Estimate

Basic Program Level	91,200	1350		-Provides minimum technical assistance program with limited Federal financial assistance ($47 million, 56% of 1982) -Completes no projects -Initiates no starts.

PROGRAM SUMMARY
AGENCY NAME Soil Conservation Service
PROGRAM UNIT CODE 5620 TITLE Small Watershed Plan Implementation

Major objectives.
Implement plans to install measures to reduce flood, sediment and erosion damages to the upstream areas of the Nation; to improve the quality of water in the Nation's streams and reservoirs; and, to control, develop and efficiently manage water for agricultural, municipal and industrial use.

Accomplishments.
The Watershed Protection and Flood Prevention Act of 1954 (P.L. 83-566) was authorized to solve floodwater, water conservation, water quality management, irrigation and drainage problems in upstream areas of the Nation through accelerated land treatment measures and practices and structural measures that are installed on the land where the rain falls instead of impounding the water after it reaches the big rivers. State agencies and qualified local groups work with SCS by acquiring land, easements and rights-of-way, awarding contracts, cost sharing measures and maintaining and operating completed projects. Of the 1,307 watershed projects with planning completed 1,246 have been approved for operation as of May 1, 1981. Of these, 556 are completed, installation of planned structural measures has been completed on an additional 40 projects, 391 are under construction and 162 are pending construction starts. An additional 43 projects are inactive and 92 have been deauthorized. Installed measures provide about $2.68 of benefits for each Federal dollar invested and the present upstream flood damages estimate of $2.58 million annually would be much greater without the program. Current work has emphasized completion of projects in progress and applying land treatment measures that reduce runoff, flood flows, and erosion and protect the environment.

Alternative Program Levels to be Considered.
1. Basic Program Level - Reduces the funding level by almost 43 percent with a significantly reduced financial assistance programs. There would be no projects completed or started, but existing contracts would be modified for ongoing work.

Standard Form 132
(Revised July 1976)
Office of Management and Budget
Circular No. A-34

Sheet 1 of 2
Fiscal year 1982

APPORTIONMENT AND REAPPORTIONMENT SCHEDULE

Agency: United States Department of Agriculture

Bureau: Soil Conservation Service

Appropriation or Fund Title and Symbol: 12X1072 - Watershed and Flood Prevention Operations

Description (General)	Amount on Latest S.F. 132	Agency Request	Action by OMB
BUDGETARY RESOURCES			
1. Budget authority:			
A. Appropriations realized	26,886,000	192,045,000	
B. Appropriations anticipated (indefinite)			
C. Other new authority ( )			
D. Net transfers (+ or −)			
2. Unobligated balance:			
A. Brought forward October 1 (Actual)	31,000,000	41,418,200	
B. Net transfers (+ or −)			
3. Reimbursements and other income:			
A. Earned			
B. Change in unfilled customers' orders (+ or −)			
C. Anticipated for rest of year	300,000	7,000,000	
4. Recoveries of prior year obligations:			
A. Actual			
B. Anticipated for rest of year			
5. Portion not available pursuant to P.L. (−)			
6. Restorations (+) and writeoffs (−)			
7. Total Budgetary Resources	58,186,000	240,463,200	240,463,200
APPLICATION OF BUDGETARY RESOURCES			
8. Apportioned: *Memorandum: Obligations incurred*			
Category A:			
(1) First quarter	49,260,000	(	(
(2) Second quarter		(168,324,000	(168,324,000
(3) Third quarter		48,093,000	48,093,000
(4) Fourth quarter		24,046,200	24,046,200
Category B:			
(1)			
(2)			
(3)			
(4)			
9. Withheld pending rescission			
10. Deferred	-8,926,000		
11. Unapportioned balance of revolving fund			
12. Total Budgetary Resources	58,186,000	240,463,200	1/ 240,463,200

Submitted: Dennis Kaplan (Authorized officer) 1/5/82 (Date)

Apportioned: Deputy Associate Director for Natural Resources JAN 18 1982 (Date)

1/ Funds will not be obligated for new construction start contracts in small watershed projects authorized by Public Law 566 but are available for other purposes.

Question: Since we are now seeing a drop in new construction nationwide, it seems that this would be a good time to be contracting for more construction to take advantage of low contractor bids and make the construction dollar buy more flood control. What is your experience regarding this?

Answer: Contract awards in the latter part of FY 1981 and thus far in 1982 are running 10 to 20 percent under engineering estimates. This compares to an average of about 10 percent over engineers' estimates prior to mid-1981.

P. L. 566 - SMALL WATERSHED OPERATIONS

Question: Congress, in the last few years, has put a high priority on funding small watershed construction and has included additional funds so that more projects may be completed. The objective of this Administration, indicated by the decrease of $67,411,000 for P. L. 566 Small Watershed Operations Program funds, appears to be in direct conflict of the objectives of Congress. How will the installation of projects be affected by this total decrease?

Answer: The $67,411,000 program decrease is partially offset by the $1,662,000 increase for the October, 1981 pay raise for a net change of $65,749,000. The $92,862,000 requested for fiscal year 1983 will be used to service ongoing projects. However, the reduction in funding will delay the completion of twenty-three to twenty-five projects if no new construction starts would be initiated or, if new construction starts would be initiated, the delay in project installation would be five more new starts and up to twenty project completions.

Question: Is this decrease for the purpose of supporting the soil and water conservation grants proposed for 1983?

Answer: The decrease is not to support the soil and water conservation grant program. The decrease is part of the President's Program for Economic Recovery to bring the serious problems of high interest rates and double digit inflation under control by reducing Federal spending in many construction and related programs.

Question: How will Mississippi be affected?

Answer: Allocations to Mississippi currently amount to $5,853,524 in fiscal year 1982 for the small watershed program. The tentative allocation to Mississippi for fiscal year 1983 is $3,368,000.

Question: The Appropriations Committee has been quite concerned about the proposal of no new construction starts in this and previous years. The Appropriations Conference Report directed that there be new construction started in 1982, yet you have indicated that there will be no new construction starts in fiscal year 1982 or fiscal year 1983. Why is it necessary for Congress to include in the bill the language directing that there will be construction starts?

Answer: All language included in the appropriations bill becomes law when the President signs it. Language included in the

Congressional report concerning the appropriations bill is considered advisory by the Office of Management and Budget.

Question: How many projects will be completed in fiscal year 1982?

Answer: We estimate that we will complete twenty-three projects in fiscal year 1982.

Question: How many projects will be completed in fiscal year 1983?

Answer: We have estimated that we will be unable to complete any projects in fiscal year 1983. However, it is possible that a few projects that would be undergoing final land treatment could actually be completed in fiscal year 1983 instead of fiscal year 1982 or fiscal year 1984.

Question: What is the magnitude of unfunded construction work remaining to be done in the P. L. 566 operational projects?

Answer: There are currently about 527 projects which are considered actively in process. The other projects have been either completed, deauthorized through agreement between the sponsors and the Soil Conservation Service, or designated inactive pending discussion with the sponsors to deauthorize or modify and continue work to complete them. It would cost about $1.1 billion to complete these projects, and would take about eight or more years for all contracts to be awarded and completed.

Question: How much watershed operations funds could you efficiently use with current staff levels?

Answer: Current staff levels could support project operations authorized by Public Law 566 at a total funding level of about $180,000,000 in fiscal year 1983.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

BUDGET REDUCTIONS

Question: In your testimony you state that you are reducing your budget by 10 percent. In light of the fact that conservation of our soil and water has been one of the leading concerns of this century, this seems to be a step in the wrong direction. What percentage cut did the Soil Conservation Service take last year?

Answer: The FY 1982 appropriation of $575.4 for the Soil Conservation Service represented about a 2 percent reduction below the FY 1981 level of $589 million.

Question: How can you possibly increase your activities with this reduced funding?

Answer: The need to reduce Federal expenditures to address the Nation's serious economic problems is an overriding one and is the highest priority reflected in the 1983 budget. Certainly, conservation programs will benefit in the long run by alleviating the persistent high rates of inflation which have significantly reduced the buying power of our conservation dollar in past years. Within the reduced funding levels proposed for the Soil Conservation Service, we are taking some positive steps towards addressing soil and water conservation concerns. These are an expansion of our targeting program for accelerating technical assistance in geographic areas with critical resource problems, and, a new grant program to encourage greater involvement on the part of State and local governments in the conservation effort. We also will be continuing our regular technical assistance activities in FY 1983 at about the 1982 level. In this way we feel we will be able to maintain an adequate level of progress in dealing with conservation problems. It should be noted that most of the decrease proposed for SCS programs in 1983 is in our construction activities where we are simply delaying ongoing work until such time as the economic situation improves.

RCA PREFERRED PROGRAM

Question: What does Secretary Block's preferred program for Soil and Water Conservation do to the existing programs such as conservation operations, Great Plains Conservation, and others?

Answer: Most existing USDA programs would continue to the extent that they were funded. In the programs that are not special purpose, such as snow surveys, there would be a realignment of priorities to emphasize erosion control and reduction of flood damages.

USDA would focus its activities on those geographical areas and resource problems that pose the greatest threat to long-term agricultural productivity. For each of the next 5 years, SCS and ASCS would devote an additional 5 percent of their technical and financial assistance budgets for dealing with these high-priority areas and problems. In 5 years, then, these two agencies would be devoting fully one-fourth of their technical and financial assistance funds to helping targeted areas. Other agencies of USDA such as the Agricultural Research Service and Extension Service would be focusing more of their research, information, and education dollars toward similar problems, as called for in Title XIV of the Agriculture and Food Act of 1981.

GREAT PLAINS CONSERVATION PROGRAM

Question: If you received $50 million for the Great Plains Conservation Program, what could you accomplish?

Answer: With a $50 million budget, we could increase the number of new contracts signed in FY 1983 to over 2,000. These contracts would provide for about 6 million acres of conservation treatment to be applied during the next ten years. In addition, fifty new counties would be designated for eligibility in the Great Plains Conservation Program.

Question: The farmers in my area of the country are in serious economic difficulties with low prices, increased production costs, etc. If we approve your funding at the low level requested, how many farmers do you think will be able to finance conservation on their own?

Answer: Farmers must make some difficult decisions on the use of funds during these tough economic times. Some farmers may need to delay the installation of terraces and other costly erosion control practices or the construction of a farm pond for better distribution of livestock grazing. Any delay means erosion will continue at higher rates at many locations. However, we are emphasizing the application of less costly practices, such as conservation tillage, contour farming, and other management practices which can also significantly reduce erosion rates. These practices can be applied with little or no financial cost to the farmer.

QUESTIONS SUBMITTED BY SENATOR CHILES

Question: There are some 3,189,000 acres of cropland in Florida. Almost 36 percent of this land is eroding in excess of 5 tons per acre per year. More specifically, there are 743,000 acres of cropland in the 16 county area of Florida that comprises the panhandle and of this total, 43 percent is eroding in excess of 5 tons of soil per acre per year. This obviously constitutes a serious problem. As you know, the Resource Conservation Act seeks to identify and log critical sediment and erosion areas and made recommendations regarding solutions to these problems.

When will the final RCA report and recommendations be made?

Answer: We expect the final report to be ready to submit to Congress no later than this fall, 1982.

Question: Do you anticipate the final report containing any reference to Florida's erosion problems and anything on Florida's panhandle problems in particular?

Answer: The final report will not specifically address Florida's or any other State's resource problems. USDA is using data collected nationwide to determine how serious the problems are and where they are located. This data clearly shows the severity of the erosion problem in Florida.

Question: Will the report contain any recommendations regarding Florida's erosion problems?

Answer: As indicated in the above answer, the report itself will not contain specific recommendations regarding resource problems in individual States. However, the final report will outline actions designed to deal with resource problems of national significance on a national basis which will apply to Florida.

Question: Are any funds currently being spent to help stop erosion in Florida's panhandle? In Florida in general?

Answer: The Soil Conservation Service currently operates a number of programs in Florida, including our Conservation Technical Assistance program through which we traditionally provide assistance to land owners and users in addressing various soil and water resource problems including soil erosion. A total of $3.3 million dollars was spent under this program in Florida in fiscal year 1981. The FY 1983 budget proposes to increase this to $3.8 million.

In addition, $3.2 million was spent in Florida in FY 1981 for other SCS programs such as Soil Surveys, Watershed construction projects, and Resource Conservation and Development.

In terms of RCA activities, funds were allocated to Florida for the development of a State soil and water resource conservation plan. This plan has recently been completed and the implementation phase is expected to begin soon.

Question: Resource Conservation and Development Projects have been helpful to groups and local communities throughout the country in helping them resolve local soil and water conservation problems. The Department of Agriculture is now trying to phase out this program. Why?

Answer: The Department's present policy position on RC&D, as portrayed through the budget, is to phase out the program in fiscal year 1983. This policy had its beginning with a reduced budget proposal for fiscal year 1977. Most frequently quoted as the basis for terminating the program is a study made by the Soil Conservation Service in 1975 which covered a period of program implementation between 1965 and 1972. The study criticized the program in that statistically significant economic progress towards program objectives to alleviate unemployment and improve economic conditions in RC&D areas could not be substantiated.

In October 1978, the "Report of the Task Force on USDA's Resource Conservation and Development Program" was submitted to the Secretary. The report concluded that while the program has been successful in achieving many of its objectives, it could be strengthened. The report made 17 recommendations to improve the program.

With conflicting views on the merits of the program, the Department in an era of need for fiscal restraint, believes the program should be terminated.

QUESTIONS SUBMITTED BY SENATOR STENNIS

SOIL CONSERVATION ASSISTANCE ON INDIAN LANDS

Question: I understand that under the Watershed Protection and Flood Prevention Act, as amended, tribal governments have become eligible for direct funding from the Soil Conservation Service for setting up their own conservation districts and carrying out watershed projects. I understand further that estimates provided by the Department of Agriculture point out that an additional $25 million is needed in FY 1983 to adequately fund conservation flood protection and rural development assistance on Indian land. Is your assessment of this situation the same as the one I have outlined and, if it is, do you have any plans to request the funds needed for this part of your program?

Answer: The Department of Agriculture recognizes conservation districts formed under Indian Tribal or Federal law and has agreed to provide conservation assistance to such districts on the same basis such assistance is provided to any district organized under

State law. The first such district was established in fiscal year 1981 with assistance from the Soil Conservation Service. The Service has been giving priority emphasis to providing technical assistance services to Indians for the past several years within our ongoing program. The 1981 Farm Bill contained an amendment to the Watershed Protection and Flood Prevention Act which would authorize Indian tribes or tribal organizations to "carry out, maintain, and operate the works of improvement."

There are over 53 million acres of Indian land in the conterminous United States. An additional 44 million acres are in Indian/Alaska Native ownership under the provisions of the recently enacted Alaska Lands Bill. As a significant portion of these lands are devoted to agricultural purposes, there is certainly a need to provide conservation assistance for preserving these resources. Such assistance will be provided within authorized funding levels for Soil Conservation Service programs. Because of the need to reduce Federal expenditures to promote national economic recovery, it is unlikely that we will be requesting additional funds for assistance on Indian lands in the immediate future. We will provide priority assistance for critical problems on Indian lands to the extent possible within available funds.

Federal Crop Insurance Corporation

STATEMENT OF MELVIN E. SIMS, CHAIRMAN, FEDERAL CROP INSURANCE CORPORATION

ACCOMPANIED BY:

SEELEY LODWICK, UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

WAYNE A. FLETCHER, PRESIDENT, FEDERAL CROP INSURANCE CORPORATION

ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

FEDERAL CROP INSURANCE PROGRAM

Senator COCHRAN. Our final panel for today consists of representatives from the Federal Crop Insurance Corporation.

This wholly owned Government corporation is charged with the responsibility of improving the economic stability of agriculture through a sound system of crop insurance.

In the fiscal year 1983 budget request, the Corporation is asking for funds to provide crop insurance for agricultural producers in all 3,000 agricultural counties in the Nation. The administration proposes to accomplish this objective by expanding the crop insurance program by the utilization of more insurance companies and agents, as the private insurance industry and the Government continue their partnership.

The Appropriations Committee recommends funding for three separate corporation accounts: Administrative and Operating Expenses; Subscription to Capital Stock; and the Federal Crop Insurance Corporation Fund.

INTRODUCTION OF WITNESSES

We welcome to the subcommittee this morning to discuss the Federal Crop Insurance Corporation request Secretary Seeley Lodwick; Melvin Sims, Chairman of the Federal Crop Insurance Corporation; Wayne A. Fletcher, President of the Federal Crop Insurance Corporation; and Bob Sherman, our Deputy Budget Officer from the Department of Agriculture.

PREPARED STATEMENT AND BIOGRAPHIES

We have Mr. Sims' statement, which we appreciate your submitting to us. We will include that statement and biographical sketches in the record at this point.

[The statement and biographical sketches follow:]

PREPARED STATEMENT OF MELVIN E. SIMS, CHAIRMAN

FEDERAL CROP INSURANCE CORPORATION

Mr. Chairman and Members of the Committee:

This is my first opportunity to appear before this committee. It is a pleasure for me to appear here to present the fiscal year 1983 budget request for the Federal Crop Insurance Corporation. Before we discuss the budget, however, let me briefly describe why there is a need for crop insurance protection and how the producer now has an opportunity to become more involved in managing his own disaster protection.

Need for Crop Insurance Protection

The need for crop insurance protection has become more critical today than ever before, due to much higher annual production costs and increased outlays for capital investments. The average farmer cannot survive many crop failures. To recover the investment lost from one crop failure can easily take a farmer five years of average crop production. If he is unfortunate enough to have two or three crop failures during his farming career, without crop insurance, he spends a significant part of his productive life operating his farm just to recover from such unavoidable crop losses.

The Crop Insurance Act of 1980 enabled us to address the risks facing today's producers. The Act provides the legal basis for the rapid establishment of a comprehensive system of protection. The Act also allows a producer to play a direct role in structuring the crop insurance program that best meets his farming needs. It provides the producer another very important planning tool in the management of the many resources that comprise a successful on-going farming operation. Producers may choose from three levels of recorded or appraised average yield (50 percent, 65 percent, 75 percent) in determining the level of crop insurance protection for their farm operations. Also, to encourage the broadest possible participation in the insurance program, 30 percent of each producer's premium (up to a maximum of 65 percent of yield) will be paid by the Federal Government.

Our F.Y. 1983 budget is designed to continue the expansion and improvement of the crop insurance program. My budget presentation is divided into three parts: the 1981 Crop Insurance Experience; the crop year 1982 program plans; and the crop year 1983 program plans.

Crop Insurance Experience, 1981

The current estimate of the crop year 1981 experience shows premiums amounting to about $375.9 million, an increase of $218.2 million over the 1980 crop year premiums, and indemnities of about $393.1 million, for a loss ratio of 1.05. This loss ratio for 1981 is still subject to change depending on the outcome of the citrus crop, which was damaged by freezing temperatures during early January 1982, and other late-season losses. These estimates do not include figures for reinsured companies. The net gain on reinsurance operations is estimated at $5.6 million for crop year 1981, exclusive of administrative expenses and premium subsidy.

Although the Corporation is expecting to pay about $1.05 in indemnities for each dollar of premium collected for crop year 1981, the losses are substantially below those paid out for crop year 1980, when the Corporation had to pay out $2.26 for each dollar of premium collected. The heaviest 1981 crop year losses were on corn, cotton, soybeans, tobacco and wheat amounting to over $333.8 million of the total indemnities. Of the 28 commodities insured, these 5 commodities account for almost 85 percent of the total losses. The 1981 crop year soybean losses account for over $158 million, or over 40 percent, of the total indemnities, and the Southeastern portion of the United States accounts for over 50 percent of the total indemnities. The crop year 1981 loss experience again demonstrates that severe crop losses are quite possible in some of the best production areas. It further demonstrates that the risk on a county and farm basis can be far greater than most farm producers realize until the disaster strikes a growing crop. Regardless of the farmer's production history, he can never be sure of favorable weather or freedom from insect damage or plant disease.

The crop year 1981 experience was the Corporation's first year in implementing the new all-risk crop insurance program. Based on completed data for program indicators, the new insurance program was very successful. For example, farmer premium, including reinsurance, went from $157.6 million in crop year 1980 to $331.1 million in crop year 1981, an increase of 110 percent. Other notable accomplishments for crop year 1981 include insured acreage going from 26.6 million acres to 46.8 million acres, an increase of 20.2 million acres (76 percent); insurance in force growing from $3.0 billion to $6.0 billion, an increase of $3.0

billion (100 percent); and the loss ratio declining from 2.26 to 1.05, a decrease of 1.21 (54 percent).

Now let us take a brief look at the current situation before focusing on the future.

Crop Year 1982 Program Plans

The appropriation for the 1982 fiscal year has permitted the Corporation to offer all-risk insurance protection on 28 commodities in crop year 1982. Insured acres are estimated to increase by 45.2 million acres (97 percent), and insurance in force, by $5 billion (83 percent). Crop insurance will be available for almost all the acreage devoted to the disaster payments program crops. Farmer participation for crop year 1982 is estimated to reach a rate of over 30 percent of the potentially insurable acreage.

Crop Year 1983 Program Plans

For fiscal year 1983, the appropriations request for administrative and operating expenses will enable the Corporation to provide for additional growth, which will bring the Corporation closer to attaining its basic long-term objective of promoting the national welfare by improving the economic stability of agriculture through a sound system of crop insurance. Producer participation is projected to range from 40 percent to 50 percent on the 1983 crops. The major portion of the administrative and operating expenses is to provide for the program delivery system that will utilize the private sector heavily and will be composed of reinsured companies, agency sales and service agreements, and individual agents sales and service agreements. It is estimated that the reinsured companies will handle about 50 percent of the total premiums during crop year 1983 with about 30 to 50 companies. About 40 percent of all premiums will be handled by agency sale and service agreements that would involve between 50 to 70 organizations, with the remaining 10 percent of total premiums to be handled by about 3,000 individual agents sales and service agreements, which will enable private insurance agents and brokers to sell crop insurance on a commission basis.

To carry out our goal in fiscal year 1983, we are requesting an appropriation of $716,936,200. The funding request breaks down as follows:

-- $293,703,000 for administrative and operating expenses to handle the increased workload resulting from an expanded program. A large portion (71 percent) of the administrative expenses will be needed to cover costs of adjusting losses, reinsured companies, and agents' commissions.

-- $250,000,000 for capital stock to ensure that the Corporation's capacity to meet future contractual commitments to insured farmers is unimpaired. This amount represents the remaining portion of the total capital stock of $500 million authorized by the Federal Crop Insurance Act of 1980.
-- $145,575,000 for premium subsidy to encourage the broadest possible participation by farmers in the crop insurance program.
-- $27,658,200 for restoration of funds for agents' commissions paid from premium income during F.Y. 1981, not previously appropriated.

The total funds requested for fiscal year 1983 will provide for continued nationwide expansion of the crop insurance program in all agricultural counties and make crop insurance available to farm producers as rapidly as possible. In addition, the Corporation will continue to improve and refine existing crop insurance programs with the objective of providing farm producers the best crop insurance protection consistent with sound insurance operations.

I would like to have inserted in the record two exhibits. The first exhibit is a revised table of the 1981 crop year experience by commodities as of March 6, 1982, and reflects the changes that have taken place from the earlier estimates shown in the President's Budget.

The second exhibit is a loss ratio table showing that during the 34 years of its existence, the crop insurance program has had 18 years in which premiums have exceeded indemnities, and 16 years in which the reverse has been true. The 34-year loss ratio is 1.09. I would also like to have the attached descriptive charts inserted for the record.

This concludes my statement. We will be glad to answer any questions or furnish any additional information you may desire.

EXHIBIT I

ESTIMATED CROP INSURANCE EXPERIENCE - 1981
as of March 6, 1982

ALL PROGRAMS
(Dollars in Thousands)

Program	Number of Losses	Amount of Protection	Amount of Premium 1/	Amount of Indemnities	Loss Ratio
Almond..........	10	$8,877	$622	$21	.03
Apple.......	328	9,979	874	1,228	1.41
Barley............	3,657	89,902	7,929	6,670	.84
Bean..............	1,003	51,898	4,236	4,263	1.01
Citrus............	2,205	39,196	3,251	7,205	2.22
Combined Crop.....	91	22,106	788	51	.06
Corn..............	24,040	1,433,451	86,035	54,804	.64
Cotton............	5,168	276,789	22,440	25,157	1.12
Flax..............	647	3,501	509	468	.92
Forage Production.	27	283	25	32	1.28
Forage Seed.......	23	127	12	11	.91
Grain Sorghum.....	6,231	135,005	11,496	12,026	1.05
Grape.............	287	18,198	1,118	1,167	1.04
Oat...............	6,113	27,417	2,964	4,267	1.44
Pea...............	238	11,210	752	437	.58
Peach.............	27	3,209	259	63	.24
Peanut............	3,036	272,433	14,359	10,357	.72
Potato............	22	3,625	213	306	1.43
Raisin............	1	34,111	2,016	14	.01
Rice..............	638	83,135	2,293	4,019	1.75
Rye...............	0	9	1	0	.00
Soybean...........	50,956	1,271,746	99,892	158,316	1.58
Sugar Beet........	249	54,902	2,815	1,385	.49
Sugarcane.........	77	15,337	617	576	.93
Sunflower.........	1,972	73,455	6,455	4,580	.71
Sweet Corn........	33	627	43	51	1.18
Tobacco...........	9,267	967,972	26,437	23,001	.87
Tomato............	37	5,279	292	131	.45
Wheat.............	36,349	966,221	77,157	72,494	.94
Total 2/.......	152,732	$5,880,000	$375,900	$393,100	1.05

1/ Includes government premium subsidy.
2/ Does not include reinsurance operations.

Exhibit II

United States Department of Agriculture

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FEDERAL CROP INSURANCE CORPORATION

LOSS RATIOS - 1948-1968

PROGRAM	CROP YEAR																					PROGRAM
	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	
Wheat	.58	1.43	.52	1.06	.85	1.25	1.42	1.26	1.09	.60	.16	.68	.23	1.09	.38	.95	.57	1.24	.54	1.14	1.01	Wheat
Cotton	.43	1.97	2.81	.82	.44	1.05	.56	.84	.67	.54	.25	.45	.52	1.38	1.24	.70	.46	.84	2.29	3.85	1.92	Cotton
Combined Crop	.06	.16	.94	1.65	2.33	.91	1.50	1.42	1.28	.83	.36	1.70	.27	1.23	.76	.45	.45	.07	.41	2.12	.10	Combined Crop
Tobacco	.43	.66	.61	.49	.79	1.90	.89	.40	.28	.34	.19	.38	.35	.29	.79	.62	.31	.53	.59	.38	.54	Tobacco
Corn	.17	.16	1.26	2.38	.25	.17	.56	1.47	3.35	.46	.56	.87	1.45	.23	1.52	.41	1.67	2.04	.45	.94	.66	Corn
Flax	.51	.62	.42	.49	.79	.95	.77	.77	.54	2.46	.45	1.64	.47	1.27	.65	.79	1.41	.40	.96	.79	.36	Flax
Bean	.29	.64	1.84	3.14	.55	.62	1.60	.66	.96	1.03	.32	.91	.59	.54	2.03	.61	1.58	2.29	1.03	.64	1.35	Bean
Citrus				---	.04	---	---	.03	.22	7.25	.15	.24	2.11	2.36	9.25	.03	.45	1.11	.29	2.75	2.21	Citrus
Soybean								.73	.74	.65	.36	.44	.56	.54	.67	.98	1.02	.95	.58	1.27	.78	Soybean
Barley									.39	.35	.39	1.08	.69	1.53	.81	1.05	.53	.24	.42	.62	.43	Barley
Peach										.50	.77	1.13	.76	.63	1.81	1.03	3.50	.54	.95	2.29	.24	Peach
Grain Sorghum												.27	.28	.70	.39	.75	1.03	.50	.42	.76	1.01	Grain Sorghum
Oat												.99	.65	1.26	.47	.60	.69	.22	.60	.48	.39	Oat
Rice													.58	1.03	.64	---	.68	.43	.34	.31	.77	Rice
Raisin														.01	---	3.64	.02	.07	.07	.06	.03	Raisin
Pea															3.08	.53	2.64	.87	2.69	.76	2.77	Pea
Peanut															.35	.77	1.31	.26	.25	.55	.53	Peanut
Potato															2.17	2.21	3.98	1.08	2.27	1.05	1.38	Potato
Apple																.35	.92	.37	1.91	.91	3.33	Apple
Cherry																4.84	.21	1.66	4.33	*		Cherry
Tomato																.41	.25	.27	1.81	.64	.97	Tomato
Safflower																	3.02	7.42	2.94	*		Safflower
Sugar Beet																		.29	.58	.60	.64	Sugar Beet
Tung Nut																		.08	.32	.15	4.92	Tung Nut
Grape																				1.02	1.25	Grape
Sugarcane																				.07	.20	Sugarcane
Puerto Rico Reinsurance																					.05	Puerto Rico Reinsurance
Sunflower																						Sunflowers
Forage-Seed.																						Forage-Seed.
Sweet Corn																						Sweet Corn
Forage-Prod.																						Forage-Prod.
Rye																						Rye
Almond																						Almond
ALL PROGRAMS	.53	1.31	.91	1.12	.97	1.15	1.24	1.14	1.26	.69	.26	.77	.58	.89	1.10	.77	.90	1.13	.68	1.27	1.05	ALL PROGRAMS

* No Program

Exhibit II

United States Department of Agriculture

FEDERAL CROP INSURANCE CORPORATION

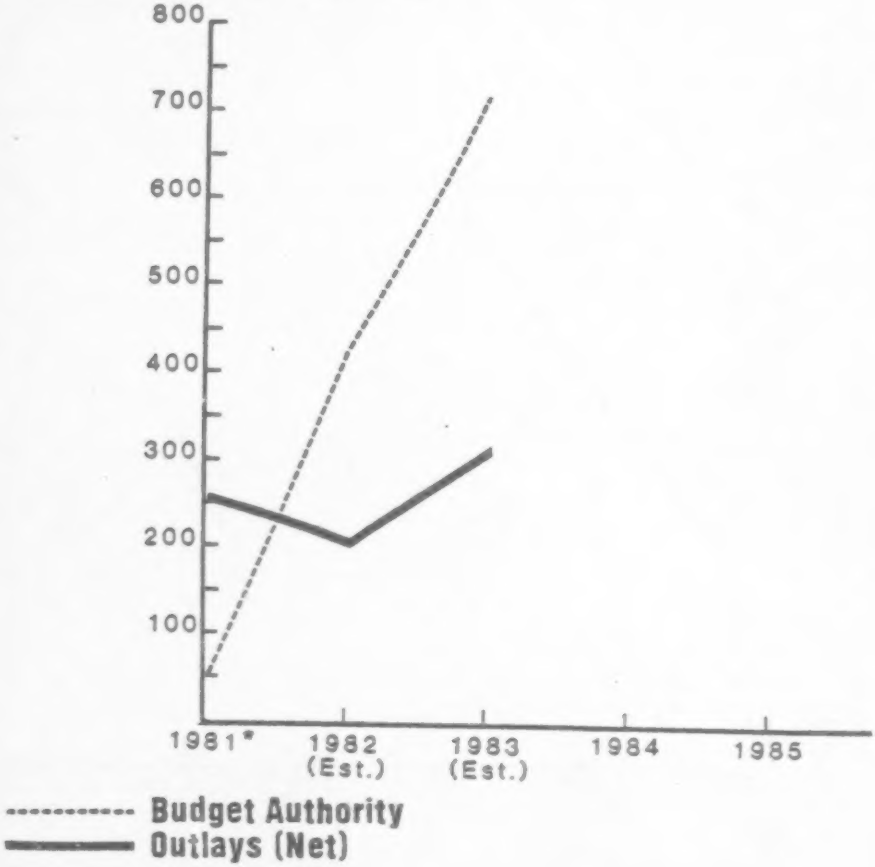
PROGRAM	LOSS RATIOS - 1969-1981 Crop Year 1/																					PROGRAM
	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1948-81	
Wheat	.74	.46	.42	.42	.83	.97	.51	.94	1.47	.48	.98	2.85	.94								1.04	Wheat
Cotton	2.61	1.33	1.67	.97	.46	2.24	3.22	3.57	.47	1.13	1.48	1.81	1.12								1.50	Cotton
Combined Crop	.06	.21	.14	.29	1.02	1.06	.61	.46	1.06	.08	.07	6.96	.06								1.16	Combined Crop
Tobacco	1.06	.58	.39	.36	.67	.29	1.06	.91	2.98	.42	1.11	2.60	.87								1.02	Tobacco
Corn	.57	1.17	.37	.25	.25	2.30	1.16	2.40	1.86	.20	.15	1.26	.64								.98	Corn
Flax	.27	.93	.69	.70	1.24	1.94	.98	2.53	1.44	.65	.53	1.97	.92								.89	Flax
Bean	.82	1.18	.67	.52	.91	.13	.82	.68	1.01	.90	.34	.71	1.01								.94	Bean
Citrus	1.75	3.11	.63	1.23	.44	.42	.37	2.66	.28	1.01	.50	1.93	2.22								1.45	Citrus
Soybean	.89	.59	.72	.79	.31	1.01	.39	1.11	.39	.35	.38	2.12	1.58								1.21	Soybean
Barley	.31	.66	.30	.61	.86	1.53	1.07	1.31	.99	.40	.56	2.39	.84								.92	Barley
Peach	.41	1.19	1.77	2.18	2.41	1.14	1.42	.46	.50	2.17	.15	.61	.24								1.22	Peach
Grain Sorghum	.41	.96	.58	.87	.23	1.63	.52	.91	.47	1.46	.62	2.96	1.05								1.05	Grain Sorghum
Oat	.43	.47	.25	1.23	1.03	1.05	.53	2.99	.56	.53	.60	2.44	1.44								.97	Oat
Rice	.44	.07	.51	.57	.63	.41	.23	.54	.72	.76	1.55	4.72	1.75								1.61	Rice
Raisin	.30	---	---	.01	.02	---	.20	11.66	.02	12.13	---	---	.01								.85	Raisin
Pea	.72	.98	.59	.52	1.54	.78	.83	.80	2.93	.84	.63	.48	.58								1.21	Pea
Peanut	.63	.22	2.16	.53	.21	.32	.32	.49	.57	.28	.67	8.23	.72								1.14	Peanut
Potato	1.54	*	*	*	*	*	*	*	*	---	.14	---	1.43								1.97	Potato
Apple	.24	1.65	1.06	3.25	1.31	1.48	.18	1.38	1.93	1.61	.80	.90	1.41								1.29	Apple
Cherry	*																				2.61	Cherry
Tomato	1.79	.30	.40	.84	.97	2.38	1.93	.19	.79	.29	1.44	.23	.45								.66	Tomato
Safflower	*																				3.93	Safflower
Sugar Beet	1.28	1.32	.56	1.01	.77	1.13	1.90	.59	.33	.20	.39	.72	.49								.72	Sugar Beet
Tung Nut	.38	2.27	*																		.75	Tung Nut
Grape	2.59	.77	---	4.10	1.55	.11	.10	.25	3.85	.20	.19	.17	1.04								1.01	Grape
Sugarcane	.08	.22	.89	.94	2.79	.50	.46	.64	.84	1.57	.70	1.39	.93								.88	Sugarcane
Puerto Rico Reinsurance	.05	.16	.01	.08	*	*	*	*	*	.24	*	*	*								.14	Puerto Rico Reinsurance
Sunflower								.35	.12	.12	.43	1.83	.71								.88	Sunflowers
Forage-Seed.										2.39	4.57	5.82	.91								3.18	Forage-Seed.
Sweet Corn										.57	.54	.72	1.18								.78	Sweet Corn
Forage-Prod.											.68	3.41	1.28								1.69	Forage-Prod.
Rye												2.88	---								.62	Rye
Almond													.03								.03	Almond
ALL PROGRAMS	1.08	.94	.60	.60	.60	1.17	.86	1.57	1.46	.50	.65	2.26	1.05 2/								1.09	ALL PROGRAMS

* No Program

1/ The 1981 Crop Year ratios are based on March 6, 1982 estimates.

2/ Does not include reinsurance operations.

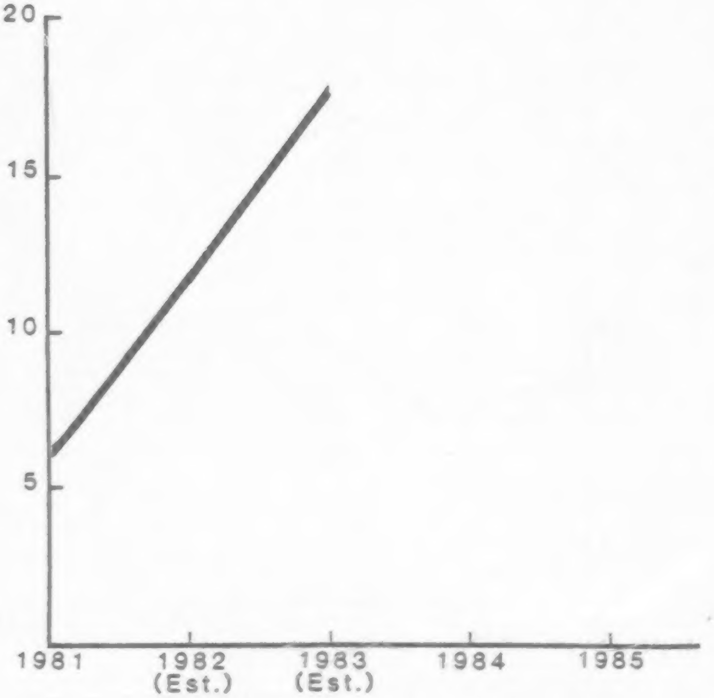
Budget Authority and Outlays
(In Millions of Dollars)



* Outlays for FY 1981 include the $250 million of indemnities paid by the Commodity Credit Corporation.

FEDERAL CROP INSURANCE CORP.
UNITED STATES OF DEPARTMENT OF AGRICULTURE

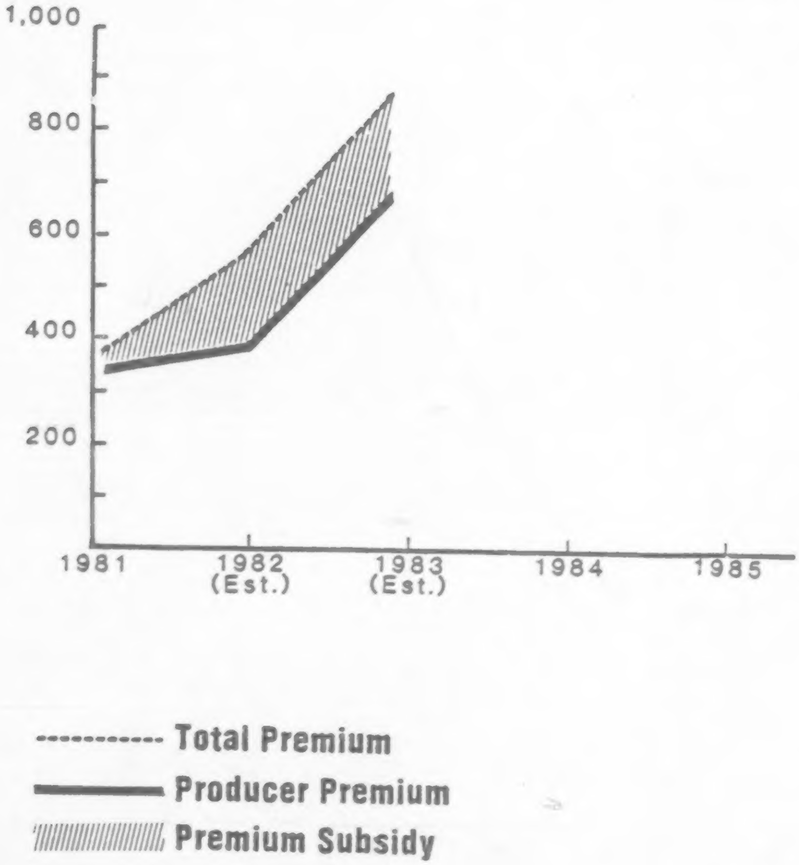
Amount of Protection
(In Billions of Dollars)



FEDERAL CROP INSURANCE CORP.
UNITED STATES OF DEPARTMENT OF AGRICULTURE

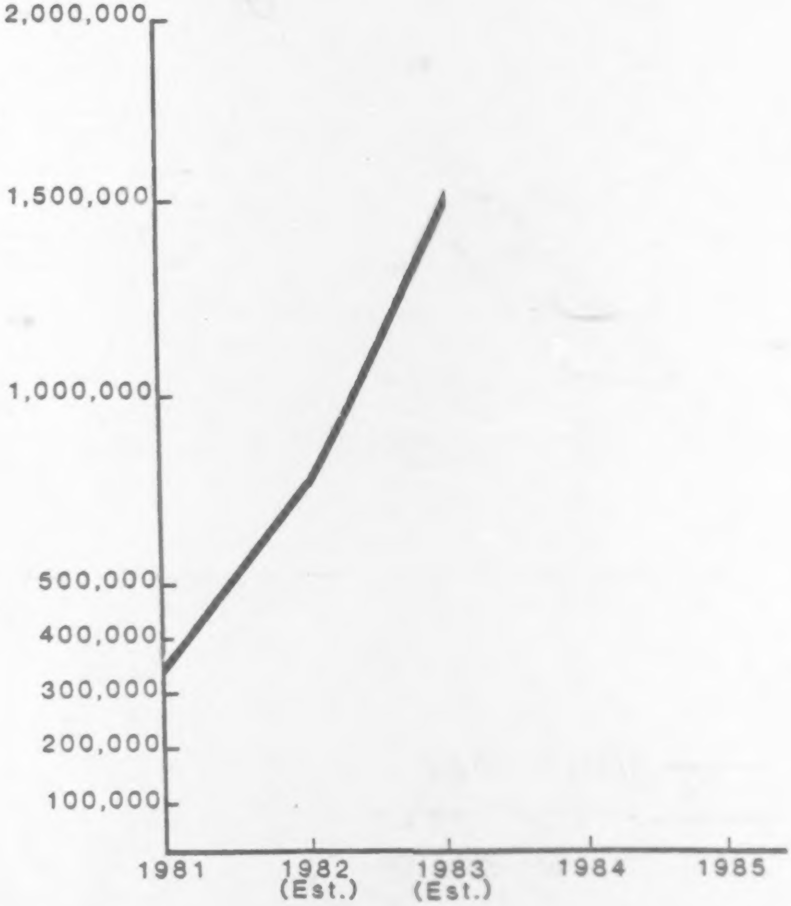
Total Premium

Producer Premium and Premium Subsidy (In Millions of Dollars)



FEDERAL CROP INSURANCE CORP.
UNITED STATES OF DEPARTMENT OF AGRICULTURE

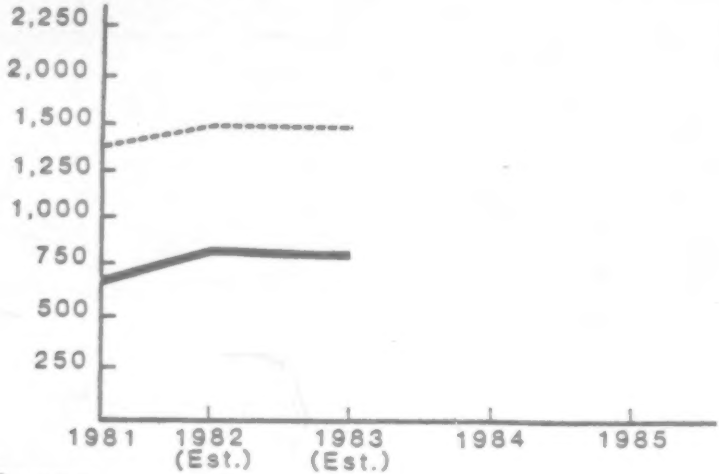
Number of Producers



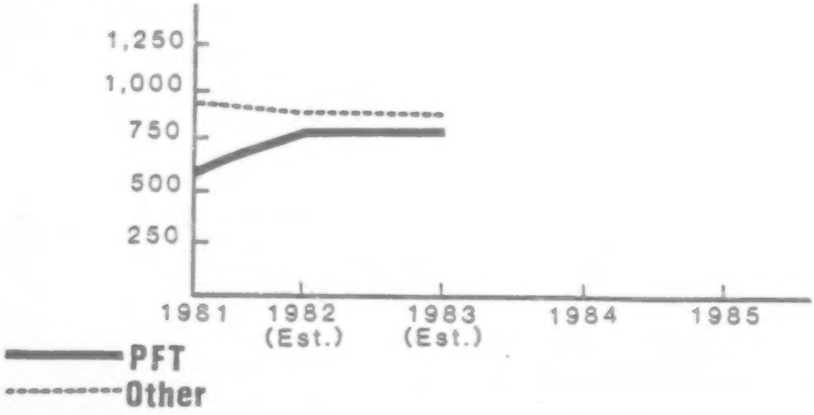
FEDERAL CROP INSURANCE CORP.
UNITED STATES OF DEPARTMENT OF AGRICULTURE

End-of-Year Employment and Staff-Years

E-O-Y Employment



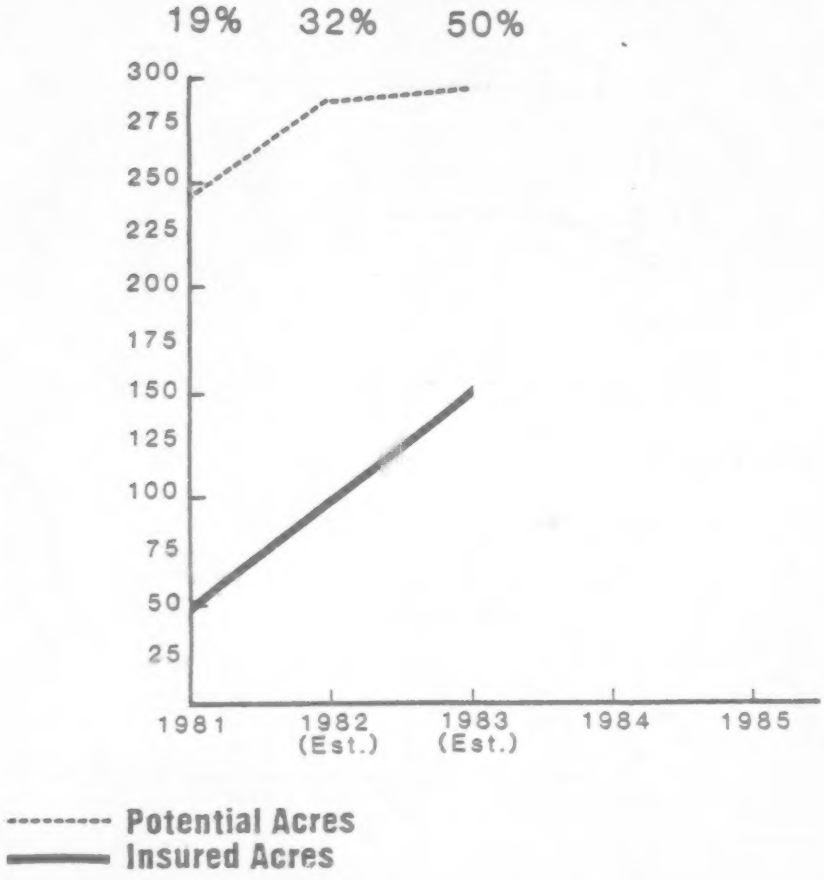
Staff-Years



FEDERAL CROP INSURANCE CORP.
UNITED STATES OF DEPARTMENT OF AGRICULTURE

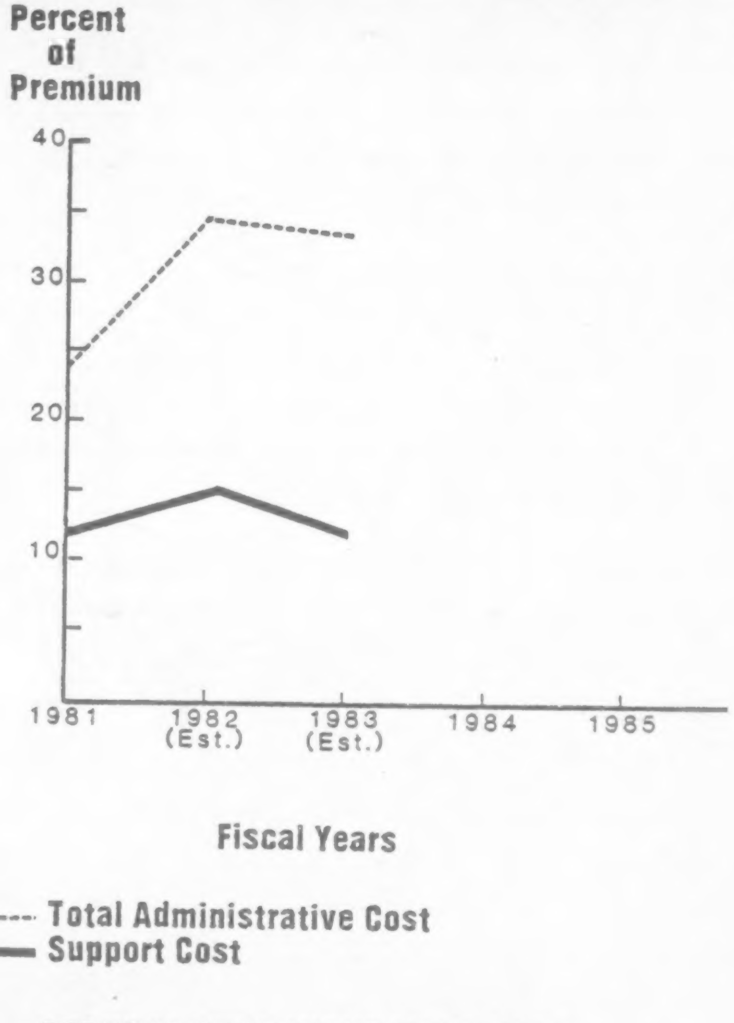
Potential and Insured Acres
(In Millions)

Participation Rates



FEDERAL CROP INSURANCE CORP.
UNITED STATES OF DEPARTMENT OF AGRICULTURE

Total Administrative Cost and Support Cost as Percent of Premium



FEDERAL CROP INSURANCE CORP.
UNITED STATES OF DEPARTMENT OF AGRICULTURE

BIOGRAPHICAL SKETCH

MELVIN E. SIMS

Melvin E. Sims is the immediate past Chairman of the Board and President of GROWMARK, Inc. He is well known throughout the agricultural business community, and his many awards and honors have earned him a listing in Who's Who in America.

Mr. Sims took early retirement in September 1980 after serving as President of GROWMARK, Inc., and its predecessor companies for 21 years. (GROWMARK, Inc., came into being on March 1, 1980, as a result of the combination of FS Services, Inc., and the Illinois Grain Corporation, a farm supply cooperative and grain marketing cooperative operating in Illinois, Iowa, and Wisconsin. Their combined annual volume is approximately $2 billion.)

Mr. Sims previously served as Director and Chairman of Agricultural Cooperative Development International, National Council of Farmer Cooperatives, and the Foundation for American Agriculture, all of Washington, D.C. He served as a member of the Federal Farm Credit Board and as a Director of the Farm Credit Bank of St. Louis, Missouri.

Mr. Sims recently served on the Boards of Directors of the National Cooperative Refinery Association of McPherson, Kansas; Farmers Export Company of Kansas City, Missouri; and as the GROWMARK shareholder representative of CF Industries, Inc., of Long Grove, Illinois.

A native of Adams County, Illinois, Mr. Sims is a 1941 graduate from the College of Agriculture, University of Illinois.

A fourth generation farmer, Mr. Sims presently operates a 1,220-acre grain and livestock farm at Liberty, Illinois, in a partnership with his brother and his son. They farrow and finish approximately 2,000 hogs per year.

Besides his son, Randall Lee, Mr. Sims has a daughter, Judith Kay, who is married to an agricultural journalist, and a total of five grandchildren.

WAYNE A. FLETCHER

Wayne A. Fletcher was a Staff Consultant for the House of Representatives Committee on Agriculture, a former Legislative Assistant to Senator Charles H. Percy for Agriculture, Food and Nutrition affairs, and was Acting Minority Staff Director for U.S. Senate Select Committee on Nutrition and Human Needs. Prior to that he worked at the U.S. Civil Service Commission as an Equal Employment Opportunity aide, has served as Legislative Aide to Illinois State Senate Agriculture Committee, and has worked for Management Safeguard, Inc., a Chicago-based management consulconsultant firm.

Mr. Fletcher received a B.A. degree in American Government from Monmouth College (Illinois), and received a Master's degree in Public Administration from American University (Washington, D.C.).

Mr. Fletcher's major responsibilities on the House Agriculture Committee included handling conservation, farm credit, futures trading, and Federal Crop Insurance legislation, and serving as Agricultural Assistant to Congressman Edward Madigan from the 21st Congressional District of Illinois.

Mr. Fletcher is no stranger to the concerns of farmers. He spent a good portion of his early years helping his father, grandfather and uncle work their farms near his boyhood home in Havana, Illinois.

SUBSCRIPTION TO CAPITAL STOCK

Senator **Cochran**. If you will permit me, I would like to just go ahead and ask you a couple of questions about the budget request.

I know last year we were confronted with a question about the capital stock problem of the Corporation. As I recall we didn't really give you everything you requested in terms of funding for capital stock. What is the situation with that this year, and what will be the result if we don't give you what you are asking for this year?

Mr. **Sims**. We did receive one-half of the amount authorized by the legislation. We received $250 million of subscription to capital stock in fiscal year 1982. That has been received. We are requesting the remaining $250 million, making a total of the authorized $500 million, in the fiscal year 1983 budget.

We continually deal with reinsured companies who actually sell insurance in their own policies. We are reinsuring that risk, and unless we are able to fulfill our part of the obligation, the reinsured company could conceivably have to do it on its own. Therefore, they are very concerned about our ability in FCIC to fulfill our part of the obligation. One way to assure them that we will have the capacity to do that is to have the full $500 million stock subscription appropriated and in our balance sheet.

Senator **Cochran**. What are the prospects this year for being able to meet any claims that may be made under the Federal Crop Insurance coverage? Do you have sufficient funds requested in the budget to meet projected claims.

Mr. **Sims**. Yes sir, we do. The claims for the year 1981 will soon be finalized, and we project now that loss ratio to be 1.05. We have adequate resources to cover the claims for the 1981 crop year, and we estimate that we will have sufficient reserves to take care of the losses for the 1982 crop year which will come from our fiscal year 1983 appropriation.

ASSESSMENT OF EXPANDED PROGRAMS

Senator **Cochran**. There is concern out in the farm communities about whether this whole program is really going to work or not, and whether you are going to be able to satisfy the need to provide a substitute for the former disaster assistance programs. What is your assessment right now of how the program is working, the extent of cooperation, and the sales that are taking place out in the countryside?

Mr. **Sims**. Growth can be described as being spectacular. We have doubled the crop insurance business in many respects in crop year 1981 over crop year 1980. We project that growth will continue in crop year 1982. There are some forces at work against this growth. One is that the farm economy is not as robust as it has been. Another one is that there is considerable moisture, favorable moisture conditions in the ground at the present time over most of the country, and farmers tend to assume that there might not be as much risk as far as drought is concerned when they go into the season with a full profile of moisture.

On the other hand, more and more financial institutions are making it a condition of the loan that farmers do share part of that risk with an insurance company. More and more farmers are finding it prudent to have this as an important part of their risk management program. The farmer who is highly leveraged can, in fact, secure a more adequate total financing plan by having All-Risk Crop Insurance available. The banker will go further with his financing plan and to the extent that that provides for a more efficient and profitable operation, I say there are many cases in which crop insurance does not cost; it pays.

Senator ABDNOR. Would the Chairman yield? Mr. Chairman, I have to go, and I wanted to ask one question.

Senator COCHRAN. Senator Abdnor.

Senator ABDNOR. I wanted to say I have some concern. I was working on the Federal Crop Insurance bill before we ever passed it. What we started with, I knew about it. But what we ended up with, isn't working in my State. As a matter of fact, you said bankers are insisting. Quite the contrary. Some of our bankers are telling the farmers they can't afford to go in it. I just don't agree with that. You may have had a big signup increase percentagewise, but I bet in total numbers it still doesn't amount to very much. At least maybe some parts of the country can work better than my part of the country. What little they receive on it is nil.

SUBSIDIZED CROP INSURANCE PROGRAM

Let me ask you, how much of this crop insurance is actually, if I can use the word, subsidized? How much is being subsidized? Is it pretty much a self-supporting program?

Mr. SIMS. No sir, it is not self-supporting at the moment. All of our administrative and operating expenses are from appropriated funds. They must be by the law that was passed. We cannot build administrative costs into our premium rate structure. In addition, there is up to a 30-percent premium subsidy. This past year, that subsidy has amounted to about 21 percent of the total premium, because the farmers had the option of going along with a disaster payments program and not taking a subsidy or taking the subsidy and removing themselves from the disaster payments program. This year, we anticipate that the subsidy will amount to about 24 percent, because the 30-percent subsidy runs up to the 65-percent level of coverage. As a matter of fact, more than one-half of the farmers are opting for the 75-percent coverage; therefore, they carry that extra 10 percent on their own without subsidy.

In the State of South Dakota, for instance, we achieved last year a participation rate of 24 percent of potential acres, which is better than our national average.

DISASTER PAYMENTS COMPARED WITH CROP INSURANCE

Senator ABDNOR. Let me ask you this. The government dollars you are putting into crop insurance, how does that compare with what you are putting into disaster payments?

Mr. SIMS. I think that we will save in the neighborhood of $300 million, as a ball park figure. We are maybe using about $200 million in the insurance program, and the average cost of the disaster program was in the neighborhood of $500 million in outlays. I think there is a net savings. This means that the protection is for many more farmers, in many more counties, and on 28 crops rather than just the 6 crops. I think the farmer is getting much more protection for less dollars in the crop insurance program than in the disaster payments program.

Senator ABDNOR. Well, I accept that, but I am going to do some more checking in South Dakota.

DISCUSSIONS WITH BANKERS

Mr. SIMS. I, too, have heard some bankers are saying this is the year you need to cut back on your expenses, and maybe this is one area in which you should cut back. I talked to two bankers just yesterday up in Minnesota. I said, "Why are bankers doing that?" He said, "The only reason I can explain it is they do not understand the new program, because if a banker is smart, he has a lot more protection from that farmer if he is carrying All-Risk Crop Insurance than if he does not." Many times those farmers who are highly leveraged are in a very high-risk position, and now we can offer protection adequate enough to generally repay most operating loans even in the event of a total crop failure.

Senator ABDNOR. Would you send a package to my office so we will have a better understanding of it?

Mr. SIMS. Yes, we will be glad to.

1981 LOSSES BY STATE

Mr. Chairman, I do have one additional exhibit which breaks down our losses for 1981 by States, and I thought that might be of interest.

Senator COCHRAN. It is indeed, and we will make that a part of the record at this point.

[The information follows:]

ESTIMATED CROP INSURANCE EXPERIENCE - 1981
as of March 6, 1982

ALL STATES
(Dollars in Thousands)

State	No. of Losses	Amount of Protection	Amount of Premium 1/	Amount of Indemnities	Loss Ratio
Alabama	5,248	$152,800	$12,300	$16,800	1.37
Arizona	66	15,200	600	300	.46
Arkansas	8,425	222,800	17,000	29,300	1.72
California	619	93,400	5,600	4,000	.73
Colorado	1,142	33,800	3,500	3,200	.91
Delaware	171	5,400	400	400	1.09
Florida	3,111	61,300	4,400	10,400	2.35
Georgia	14,922	352,200	24,500	54,400	2.22
Idaho	527	28,400	1,600	1,400	.89
Illinois	2,516	171,000	7,500	4,600	.62
Indiana	2,697	85,300	3,800	5,100	1.33
Iowa	5,941	856,900	39,870	11,693	.29
Kansas	12,475	187,100	15,400	15,900	1.03
Kentucky	3,541	143,300	5,800	7,000	1.20
Louisiana	2,779	69,000	6,500	18,700	2.90
Maryland	65	6,600	300	100	.35
Michigan	616	8,500	600	1,000	1.75
Minnesota	7,298	345,800	25,200	13,300	.53
Mississippi	4,987	224,900	16,800	32,700	1.96
Missouri	3,214	125,400	10,100	5,700	.56
Montana	6,932	197,400	14,900	21,300	1.43
Nebraska	5,241	349,100	22,900	12,200	.53
New Jersey	45	3,600	300	100	.26
New Mexico	188	7,400	700	800	1.12
New York	166	5,300	400	400	.97
North Carolina	9,873	665,400	22,000	21,100	.96
North Dakota	17,450	520,200	45,300	30,500	.67
Ohio	2,909	43,500	1,800	4,000	2.23
Oklahoma	1,832	32,100	2,700	4,900	1.85
Oregon	76	31,700	1,400	100	.11
Pennsylvania	436	17,600	1,300	800	.57
South Carolina	5,581	161,500	9,700	15,500	1.60
South Dakota	10,273	151,900	17,200	16,500	.96
Tennessee	2,773	60,500	4,000	3,700	.93
Texas	5,038	155,300	16,000	19,600	1.23
Utah	4	300	30	7	.24
Virginia	2,314	165,100	7,200	3,000	.42
Washington	452	92,200	4,200	1,600	.37
Wisconsin	751	23,800	1,700	900	.52
Wyoming	38	7,000	400	100	.32
Total 2/	152,732	$5,880,000	$375,900	$393,100	1.05

1/ Includes government subsidy.
2/ Does not include reinsurance operations.

Senator Mattingly. Mr. Lodwick, I just have four brief questions for the Federal Crop Insurance Corporation.

First, is it the intention of the administration to expand and extend the Federal Crop Insurance to cover all crops in all the counties?

Mr. Sims. We have expanded from about 1,900 counties to 3,000 counties in the six disaster crops this past year. These 3,000 counties are essentially most of the commercial agricultural counties in the country.

Senator Mattingly. Then is that completed?

Mr. Sims. That has been completed on the six disaster crops. Now, there are perhaps as many as 400 different crops. We are now engaged in programs in 28 of those. We are expanding in additional crops to the limit of our resources.

Senator Mattingly. How quickly can that be done—the extension of the crop insurance all over the country in all counties?

Mr. Sims. There is a tremendous amount of actuarial work that must be done before a program is initiated on an actuarially sound basis. That is what we are attempting to do. We are selecting new crop programs based on the economic importance of that crop in that particular county, the interest that is expressed by the producers, and finally according to the actuarial data that is available. We combine those three, and we are moving toward additional expansion as rapidly as possible.

Senator Mattingly. Do you have a target date for that?

PILOT PROGRAMS

Mr. Sims. Our goal is 28 crops nationwide by 1984, and we have about 10 pilot projects going which are introducing new crops. Our plan is to carry on a pilot program for 2 or 3 years to get some experience on a pilot basis before we implement it nationwide. Now, some crops on which there are complete records for many years, we could implement those more expeditiously.

Senator Mattingly. What additional assistance can the Congress provide the FCIC in order to make that possible?

Mr. Sims. We are limited by our people resources by the law, and sometimes limited by budgetary resources. We are planning to hire about 50 new actuarial people this spring. Unfortunately, our salary schedule does not permit us practically to attract actuarial people from private industry, because their wage scale is much higher. We have to start with college graduates and train them. That takes somewhat longer, but it is an effective program. We have expanded very rapidly and, frankly, I have some concern about our rate of growth, being able to maintain the quality of the program. So we are expanding as rapidly as we feel we can assimilate the workload. I think we need some patience from Congress to let the new program get in place and provide time for it to work. Then we need, of course, the full appropriations that we have requested to do the job that, we believe, needs to be done.

Senator Mattingly. You are talking about the pilot program. Obviously, the pilot program is going to be better than what it is replacing.

IMPROVING QUALITY OF PROGRAM

Mr. SIMS. I feel that the professional insurance agents who are in the field now can deliver a better quality program, and I happen to think more efficiently, than that in the past. We are expending considerable resources in training and quality assurance, and working diligently in improving the quality of the program.

CROP YEAR 1982 EXPANSION

Senator MATTINGLY. Is it possible to expand the coverage this year, for the 1982 crop year?

Mr. SIMS. No, the actuarial information is already in place. That must be published in the *Federal Register*. We have a considerable time lag that we must work ahead of. We are working now on improvements for the 1983 crop year and looking out toward 1984 and beyond. Right now, we are in the midst of our 1982 crop year sale.

CROP EXPANSION

Senator MATTINGLY. My understanding is sometimes insurance is offered for a crop in one county, yet for the same crop in an adjoining county it is not offered. Why is that?

Mr. SIMS. That is because we have just not been able to get the actuarial work done in that adjoining county. We are expanding to the limit of our resources. There is a huge amount of actuarial work that must be done in classifying farms for crop production. I have to be most complimentary of the work that our Actuarial Division has done this past year with the resources they have.

FEES FOR AGENTS

Senator MATTINGLY. There are going to be several other questions submitted for the record for you to respond to. One of those which I just might be able to expand on right now is in reference to the fees for the agents. Comparatively speaking, they are higher than what is used on the outside. They say they are rather high. What response do you have to that?

Mr. SIMS. I hear from some sources that our sales commission rates are too high. I hear from others, mostly those doing the work, they are too low. We think that the sales commission rates are about on target at the present time. We continue to review those. There is a considerable startup cost to reinsured companies and those engaged in the master marketing agreements, and there must be adequate resources for them to continue long term. We have been able to attract about 35 reinsured companies. If our reimbursement to them was too lucrative, I am sure we would have had many more. Some have declined to participate because of the low reimbursement and the lack of opportunity for a profit.

Senator MATTINGLY. What does the private insurance industry think of it?

Mr. SIMS. Well, I have attended some conferences, and they are excited about the long-term prospects. They have some reservations about the opportunity for profit. There are some large premium contracts that look a bit high for sales commissions, but the average sales commission, I think, is quite comparable, as best we can appraise it.

FMHA AND SBA DISASTER PAYMENTS

Senator MATTINGLY. One last question. Will 1984 be the last time you will have disaster payments out of FmHA and SBA?

Mr. SIMS. I am not sure about the FmHA and SBA.

Senator MATTINGLY. In other words, crop insurance will be replacing them.

Mr. SIMS. The crop insurance will be replacing the low-yield disaster payments program administered by ASCS, and the new farm bill says that it will not be available in any county or on any farm on which crop insurance is available for those six disaster crops, and now the seventh disaster crop, oats, which was included in this last law. We think that we will be able to have insurance in place on the majority of those crops this year. When I say the majority, the addition of oats as a disaster crop caught us a bit by surprise. We have an insurance program in place for about 82 percent of the production of oats. There is 18 percent remaining in some 1,400 counties that will not have an oat program available this year; therefore, they may qualify for low-yield disaster payments. However, on the six remaining crops, for the most part, we will have insurance available. Sometimes the farmer may need to request that his acreage be classified, but we are prepared to classify and offer an insurance program on those six remaining crops.

Senator MATTINGLY. What percent of them in the State of Georgia are now under crop insurance?

Mr. SIMS. It is an excellent record in Georgia, 46 percent of the potential, which is quite good, and we paid out lots of indemnities in the State of Georgia, primarily on soybeans. One of our most successful crop programs is tobacco, and the fact that it has worked and is working so well—we have over 50 percent of the participation rate in that program—leads me to believe that we can build a viable program which is a self-help program in other crops as well. Tobacco is a high expense crop to produce. We have excellent records in tobacco production, so it does have that difference.

SUCCESS OF PROGRAM

Senator MATTINGLY. Well, I am anxious to see your crop insurance program succeed and get fulfilled, because I think you have a disaster on your hands with the disaster program you have now.

Mr. SIMS. We share that belief, and we are optimistic about it. The insurance industry is building enthusiasm for this program, and I think it is an excellent opportunity for farmers, for taxpayers and the insurance sector. It is a unique opportunity.

Senator MATTINGLY. Thank you very much.

SUBMITTED QUESTIONS

The committee has additional questions which will be presented for your response. They will be inserted in the record at this point.

[The following questions were not asked at the hearing, but were submitted to the FCIC for response subsequent to the hearing:]

FEDERAL CROP INSURANCE CORPORATION

QUESTIONS SUBMITTED BY SENATOR COCHRAN

ADMINISTRATIVE POLICY

Question: Your budget request justification depends on a tremendous increase in the involvement of the private insurance sector to sell and service crop insurance. Would you explain the Administration's rationale for reducing its direct role in the crop insurance program?

Answer: Section 507(c) of the Federal Crop Insurance Act, as amended, directs the Corporation to the maximum extent possible, to use committees and associations, private insurance companies, and licensed insurance agents' and brokers to market and service the crop insurance program.

Furthermore, Section 516(a) of the Act limits the Corporation's employment that would be necessary to sell and service the rapidly expanding crop insurance program in the manner required. The resources of the private insurance industry are absolutely essential in order to provide the localized points of contact required to sell and service a program of this magnitude.

PRIVATE INSURANCE COMPANY INVOLVEMENT

Question: Exactly, how will the private insurance industry become more involved?

Answer: The private insurance industry has become involved in three principal ways to date. We are relying on private agents (direct writing for the Corporation), agencies (Agency Sales and Service Agreements or Master Marketing Agreement) to sell and service insurance along with certain related tasks, and reinsured companies provide the sales and service and share the liability jointly with the Corporation. For this reason they are able to also perform the loss adjustment function on their policies.

COST OF INVOLVEMENT OF PRIVATE INSURANCE BY GOVERNMENT

Question: What will that involvement cost the Government?

Answer: The fiscal year 1983 budget request is based upon reinsured companies handling $438.3 million in premium which represents 50 percent of the total premium of $876.7 million. The reinsurance expense included in the Administrative and Operating Expenses request is $105.5 million.

The fiscal year 1983 budget request assumes agency sales and service agreements (master marketing agreements) will account for about 40 percent, or $350.7 million of the crop year 1983 premium. These private insurance companies and associations that contract with the Federal Crop Insurance Corporation are compensated on a commission basis. The amount for commissions included in the fiscal year 1983 budget is $56.4 million.

Individual sales and service agreements enable private insurance agents and brokers to sell all-risk crop insurance on a commission basis. These agents will handle about 10 percent, or $87.7 million of the total premium for crop year 1983. The fiscal year 1983 budget includes $8.7 million for commissions.

SCHEDULE OF PAYMENTS TO AGENTS AND COMPANIES

Question: How will private insurance agents and companies be paid? What are the schedules for reimbursement or commission?

Answer: Individual agents and agencies contracting with the Corporation will be paid in the following manner:

For the 1982 crop year:

Fall Seeded Crops:	50 percent of the anticipated commission for new applications processed or carryover business that has been renewed.
	80 percent of the anticipated commission when the acreage report is processed.
	90 percent of the anticipated commission when the full premium payment is processed.
	The remainder of the commission when final settlements are made.
Spring Seeded Crops:	50 percent of the anticipated commissions when acreage reports are processed for new and carryover business.
	90 percent of the anticipated commission when the full premium for the crop is processed.
	The remainder of the commission when final settlement is made.

For the 1983 crop year, the total commission earned will be paid when the premium is collected.

Reinsured company agents will be paid as agreed between the agents and companies. The cash flow to their agents will be similar to that of the Corporation.

ADMINISTRATION'S PHILOSOPHY OF REPLACING DISASTER PAYMENTS

Question: Please explain the Administration's philosophy of replacing crop disaster payment programs with additional crop insurance coverage in more counties and for more commodities.

Answer: This Administration is fully committed to a course of action designed to bring Government spending under control, while recognizing and maintaining an appropriate Government role in certain activities. The Federal Crop Insurance Program is a prime example of this role.

The Federal Crop Insurance Program recognizes that, like other basic industries in this country, our agricultural producers need a program to protect their major operating costs. Unfortunately, this protection was never successfully offered by the private sector.

Because of our recognition of the importance of agriculture, several methods of support have been tried. Each has had varying degrees of success. Most recently the Government has been providing direct payments to producers of certain "disaster crops" when certain production levels were not achieved. While this method was certainly beneficial to the producers of these selected crops, it created a significant drain on Government funds, and did nothing for our other agricultural producers engaged in the production of "non-disaster crops", who also were in need of a program to protect their major operating costs. It was, therefore, out of this two-fold need that an expanded crop insurance program was developed. We wanted to provide a program for our agricultural producers that would at least protect them to the extent of their operating costs on their crop or crops. On the other hand, we needed a program that simultaneously decreased the amount of money the Government was paying in the form of direct subsidies to farmers. The crop insurance program meets both of these objectives.

The Food and Agriculture Act of 1981 (P.L. 97-98), signed by the President on December 22, 1981, provides that for the 1982 crop year no disaster payments will be made where the Federal Crop Insurance Program is available. As a result of P.L. 97-98, the Federal Crop Insurance Corporation (FCIC) is giving priority to providing nationwide coverage on barley, corn, cotton, grain sorghum, rice, and wheat, the six crops formerly covered under the low-yield disaster payment program of the Agricultural Stabilization and Conservation Service (ASCS).

For crop year 1983, we expect to have crop insurance available in 3,000 counties. We will have an estimated 1.5 million farm producers protecting themselves against essentially all risks and financial losses resulting from adverse natural causes.

As you can see, our crop insurance program allows for more protection for more producers than could have ever been achieved with a low-yield disaster payment program.

The Federal Crop Insurance Program is one example of Government and private enterprise working together to achieve a long-range goal that will be beneficial to all parties involved. It is a partnership that, once forged with our most basic of industries--agriculture, may serve as a model that will show others what Government and its people can accomplish by working together for the common good.

COMMISSION FEES FOR AGENTS

Question: What is your response to the charge that this system is nothing more than one that subsidizes the insurance industry? Are not the fees for agents rather high?

Answer: Commission fee calculations for agents are predicated upon historical precedent set by private industry. Preliminary findings by the General Accounting Office (GAO) indicate that for a period of time the agency contractors will be subsidizing the program as their commissions will not be adequate to both pay their agents and garner a reasonable profit for the company. The commission rate for selling all-risk insurance is substantially below the rate for selling hail insurance.

ATTITUDES OF INSURANCE INDUSTRY

Question: What is the prevailing attitude of the insurance industry towards this shift in policy?

Answer: Generally, the attitude of industry is positive. They recognize the value of an All-Risk Crop Insurance Program to the American farmer and the possibility of a profit on a long-term basis for their organization. Currently, 71 organizations are contracted under the agency agreement and 35 are contracted under a reinsured company agreement. Given that we are in the second year of the agency agreement and second for the reinsured agreement, it is obvious the insurance industry is willing to become involved in the expansion of the program.

THE THREE APPROPRIATIONS ACCOUNTS

Question: Your budget request reflects an increase of $291.9 million for fiscal year 1983. Of that amount, you are requesting $114.9 million for Administrative and Operating Expenses. How will that increase be used?

Answer: The increase of $114.9 million represents an increase in the activity "Contract Servicing and Claims". Of the total increase of $114.9 million for this activity, $105.9 million, or over 92 percent, is for agents' commissions on renewal contracts, reinsurance expense on renewal contract and loss adjustment cost. The remaining increase of $9 million will be required for additional printing and computer costs, the Individual Yield Coverage Program, pay cost increases, and increased operating costs.

SALARIES OR PAY INCREASES FOR FCIC PERSONNEL

Question: How much of the Administrative and Operating Expenses Account supports salaries or pays increases for Federal Crop Insurance Corporation personnel? Please provide a breakout for the record.

Answer: Of the total request of $293,703,000 for Administrative and Operating Expenses, $31.7 million is for salaries, including the pay increase, for 1,613.0 staff years for Federal Crop Insurance Corporation personnel. Also, $3.3 million is included for benefits for these employees.

ADDITIONAL CAPITAL STOCK

Question: Congress appropriated $250 million for your capital stock account in fiscal year 1982. You are requesting an additional $250 million this year. Why?

Answer: The request for the issuance of the remaining $250 million for Subscription to Capital Stock is necessary to place the Corporation on a sound financial basis in order to meet its contractual commitments. The financial solvency of the Corporation would increase the confidence of the producers in the Corporation's ability to honor its commitments in a timely fashion, and would enhance the prospect of cooperation by the private insurance sector to undertake the sharing of the crop insurance risk with the Corporation.

FCIC FUND FY 1983 BUDGET REQUEST

Question: You are requesting $173 million for the Federal Crop Insurance Corporation Fund in your 1983 budget? How will this funding be used?

Answer: The Corporation's fiscal year 1983 budget request for the Federal Crop Insurance Corporation Fund includes $145,575,000 for premium subsidy. This federal subsidy reduces the producer's cost of insuring his crops against loss, and encourages the broadest possible participation in the All-Risk Crop Insurance Program. The remaining $27,658,200 is requested to reimburse the Federal Crop Insurance Corporation Fund for agents' commissions obligated in prior years, but not previously appropriated.

PURPOSE OF FCIC FUND

Question: What is the Fund's purpose under current Administration policy?

Answer: The major purpose of the Federal Crop Insurance Corporation Fund is to receive producer premiums, and to make indemnity payments when losses occur. Other payments from the Fund are for the direct cost of adjusting crop losses and agents' commissions. However, an appropriation will be requested in subsequent years for funds used for loss adjustment cost and/or agents' commissions, in accordance with section 516(a) of the Federal Crop Insurance Act, as amended.

PRIORITIES FOR FUNDING OF FCIC ACCOUNTS

Question: What are your priorities for funding among the three above accounts?

Answer: The funding for the above three accounts is essential in order to continue expansion of the crop insurance program for fiscal year 1983. The funds requested for the three accounts are equal in priority need to adequately fund the program to avoid disruption of the recently implemented crop insurance program as provided for under the Federal Crop Insurance Act of 1980.

DISASTER PAYMENTS PROGRAM

Question: If Congress continues to mandate and fund disaster payment programs, will you need all the funds you have requested?

Answer: Yes, the Corporation will need the funds requested for fiscal year 1983, since the disaster payment programs are not administered by the Federal Crop Insurance Corporation.

SALES AND SERVICING (S&S)

Question: What is the status of efforts to provide insurance to farmers through reinsurance arrangements whereby private companies write and service policies?

Answer: The Federal Crop Insurance Act of 1980 has made it possible for private companies to competitively write all-risk crop insurance policies with the use of reinsurance from FCIC. In the 1981 crop year, 17 companies were able to sell policies totalling $13 million in premium. This was achieved despite a very limited amount of time for FCIC to put its reinsurance program in place and for the companies to make the necessary preparation following passage of the Federal Crop Insurance Act. There are 35 companies or groups writing insurance in 1982, and we expect their written premiums to total $100-$175 million. Further expansion for 1983 is expected. An excellent cross section of insurance companies are now writing this insurance including large and small organizations; stock and mutual companies; and farm organization sponsored and independent companies. The management of these companies and the leadership in their trade and servicing organizations have made a sincere commitment to making crop insurance available through private companies in an effective and efficient manner.

QUALIFICATIONS OF FCIC AGENTS

Question: How qualified must an individual be before he or she is certified to sell and service crop insurance?

Answer: Agents who sell and service All-Risk Crop Insurance are required by contract terms to successfully complete prescribed training annually. The prescribed training follows the format and utilizes the materials of the Corporation. The Corporation determines the satisfactory completion of this training. The Corporation monitors the quality of work performed by such agents on an ongoing basis.

PROBLEMS WITH STANDARDS FOR CERTIFICATION OF AGENTS

Question: Does that standard for certification present any problem?

Answer: There may be problems with individual State requirements where the State requires the company to sponsor the agent. In some cases they may not recognize our master marketing companies as insurance companies for the purpose of sponsoring the agents. We are working with State insurance regulatory groups to clarify and attempt to resolve the problems that may be encountered.

UTILIZATION OF ASCS COUNTY OFFICES

Question: In this Committee's report last year, we noted an expectation that the Federal Crop Insurance Corporation expand its use of Agricultural Stabilization and Conservation Service county offices to assure that not less than 20 percent of sales are by Agricultural Stabilization and Conservation Service employees. Have your complied with that report language?

Answer: No, the Corporation was unable to comply with the directive issued late October 1981 without disrupting the Corporation's marketing plans which were already in place and operating since August 1981. The Corporation would have been required to institute stringent guidelines to assure that not less than 20 percent of the sales quota would be met by ASCS and FCIC employees, regardless of the fact that no exclusive territories exist for marketing the crop insurance program, thereby causing a duplication of sales efforts already made by agents and private insurance companies.

COVERAGES UNDER CROP INSURANCE

Question: What hazards are covered under Federal Crop Insurance?

Answer: The list of those hazards that are covered under Federal Crop Insurance is as follows:

CAUSES OF DAMAGE CONTRIBUTING TO FCIC INSURANCE INDEMNITIES

WEATHER

Crusting
Cold Spring
Drought
Excessive Moisture
Flood
Freeze
Frost
Hail
Heat
Heaving
Heavy Rain
High Winds
Hot Winds
Hurricane
Ice
Lightning
Lodging
Non-pollination
Snow
Sprouting
Sun Scald
Tornado
Tassel Burn
Winterkill

OTHERS
Earthquake
Fire
Poleburn
Power Failure
Weeds
Well Failure

INSECTS

Alfalfa Weevil
Aphids
Army Worm
Bean Beetle
Boll Weevil
Boll Worm
Budworm
Cabbage Looper
Chinchbug
Corn Borer
Cut Worm
Earworms
Flea Bug
Flea Hopper
Grasshoppers
Greenbugs
Grubs
Hessian Fly
Hookworm
Hornworm
Junebugs
Lygus Bugs
Mites
Pink Bollworm
Root Worms
Red Spider
Sawfly
Snowflies
Stalk Borer
Stinkbugs
Thrips
Tobacco Worms
Wire Worms

PLANT DISEASE

Angualar Leaf Spot
Aster Yellows
Bacteria Leaf Spot
Black Root Rot
Black Rust
Black Shank
Black Smut
Blight
Blue Mold
Broom Rape
Brown Spot
Cob Rot
Corn Leaf Blight
Dry Mold
Ear Mold
Ergot
Damping Off
Frenching
Frogeye
Leafworm
Fusarium Wilt
Mosaic
Nematodes
Pasmo
Red Leaf Virus
Root Knot
Root Rot
Red Rust
Sore Shin
Stem Rot
Snow Mold
Wilt
Wildfire
Yellow Dwarf Virus

WILDLIFE

Antelope
Beaver
Blackbirds
Crows
Deer
Ducks
Elk
Fieldmice
Geese
Gophers
Groundhogs
Ground Squirrels
Jack Rabbits
Moles
Pheasants
Granville Wilt
Pigeons
Prairie Dogs
Raccoons
Rats
Starlings

NUMBER OF COUNTIES HAVING AT LEAST ONE POLICY

Question: How many of the 3,000 counties in which you offer Federal Crop Insurance actually have at least one policy?

Answer: At this time it is impossible to determine the number of insured counties that will not have at least one policy in force for the 1982 crop year. This is true because applications are and will be accepted up to the final closing date for sales.

For the 1981 crop year, insurance was offered in 1,928 counties. Of these, 32 did not have at least one policy in force.

PILOT PROGRAM FOR AQUACULTURE

Question: Would you detail the plans you have for pilot programs for aquaculture, to which you refer in your justification?

Answer: FCIC has entered into a cooperative agreement with the agricultural experiment station of Mississippi State University to develop a management record system for catfish. This system will provide the Corporation with information from which pilot programs may be developed. This agreement covers the time period from August 1, 1981, through December 31, 1983. At the end of this period, if sufficient data is available, a pilot program will be pursued.

PREMIUM ADJUSTMENTS FOR ACREAGE REDUCTION PROGRAM PARTICIPANTS

Question: Under the acreage reduction programs announced by USDA, farmers must reduce land in production by 15 percent in order to receive program benefits. I understand that many wheat farmers, for example, have already purchased insurance on their planted acreage, and now would like to either graze out or plow up enough to comply with the program. What arrangements are being made to adjust these insurance premiums?

Answer: Insured producers of crops affected by the Acreage Reduction Program who have already reported their planted acreage have until April 16, 1982, to revise their acreage report to reflect their compliance with the program. Upon receipt of the revised report, the premium will be adjusted. Individual policyholders have been notified by letter of this provision.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

TRAINING OF AGENTS

Question: In the spring of 1981 a great deal of insurance was sold. At the time many agents were selling on the basis of a dollar per acre rather than a tonnage per acre guaranteed. This was easy to do when you looked at the actual tables and material used to sell the insurance. Some of the agents, by their own admission made this mistake. Premiums were made on the dollar per acre guarantee basis by farmers with their bankers. Were agents properly trained to sell this insurance?

Answer: It is the requirement of the agent and agency agreement that all agents must complete a minimum of 40 hours training the first year and 20 hours a year thereafter.

MISUNDERSTANDING OF LEVEL AND TYPE OF COVERAGE FOR SUGAR BEETS

Question: If they were, why were so many sugarbeet farmers so grossly misled about the level and type of coverage they were purchasing? (At the time of the disaster (the freeze) many of the farmers needed to know specific answers to questions about what they should and should not do to qualify for a claim.

Answer: It is a human factor that a small percentage of people have a misunderstanding of what is taught. In this case some agencies informed us that a few of their agents had misinterpreted the guaranteed price, and misinformed some of their insureds. The agencies instructed each of these agents to contact their insureds and clear up the misunderstanding. This all transpired prior to the freeze.

CONFLICTING ANSWERS TO SUGAR BEET QUESTIONS

Question: Here are examples of conflicting answers to very important questions during the freeze.

We asked what constituted a harvested acre. The first time we asked, North Dakota said field stock-pile beets were not harvested acres. Minnesota said they were. Within two days the two states took opposite positions.

The policy states that in order to qualify for full coverage you must dig 15 percent of the production guarantee. We asked what exactly that meant. The answer was you must dig 15 percent of each square acre in the unit. In other words, they were to make the field look like a checker board. These two examples of confusing and misleading information at the state and later the regional level show the ignorance of the harvesting of sugarbeets by FCIC.

Answer: The Appendix of the Policy clearly defines harvest as the lifting and topping of sugar beets for the purpose of delivery to the processor. Any acreage within a unit that is not lifted and topped cannot qualify as harvested. The Policy also states that after harvest to qualify for third stage coverage, at least 15 percent of the production guarantee per acre has to be harvested to reach the third stage. Prior to the freeze, the processors were on strike, and as a result beets that were lifted were stockpiled at the edge of the field because the processors were unable to accept them while on strike. Even though the beets were harvested, the stage could not be determined until they were delivered and weighed to establish if they qualified for the third stage.

CLARIFICATION OF MISUNDERSTANDINGS ON SUGAR BEETS

Question: Do you think at a time when farmers have 40 percent of their crop left to harvest, time is running out, conditions for harvest are almost impossible, and they have spent thousands of dollars in premiums, they should be subjected to conflicting and delayed answers to questions about what they must do to qualify for claims?

Answer: As stated above, in cases where we felt that sugar beet producers were not properly informed, the agents were instructed by their companies to clarify any misunderstandings that may have existed at the time of selling the contract.

DETERMINATION OF HAZARDOUS CONDITIONS FOR HARVESTING SUGAR BEETS

Question: When conditions are wet and muddy and there is a real danger to human life and equipment, who has the right to say the risk is too great and the crop should be abandoned -- the farmer or FCIC? And, if it is FCIC can it be done quickly?

Answer: FCIC recognizes that the actual harvest of sugar beets was delayed due to adverse weather conditions, as well as the strike that delayed acceptance of the beets by the processor. We are not aware of any cases where the insureds were instructed to lift the beets during adverse or dangerous conditions. It may have been pointed out to them that lifting was required to qualify for harvested acreage, but to our knowledge no time frame was set for this, it was simply information for their use in making their own decision.

SUGAR BEET DAMAGE

Question: There is not enough data or research to know at the time of harvest whether beets that have been severely frozen as they were in 1981 are processible or not. Consequently, we do not know if they are unless we try to process them. As the campaign draws to a close it appears we would have been better off to leave some of these beets that were badly frozen in the field. In fact, we have discarded 400 thousand tons and hauled them back to the fields.

If the Red River Valley Grower's crop was damaged beyond repair do they have a claim even though they delivered their beets to their processing facilities?

Answer: Yes, the Corporation does recognize that some of the growers may have a claim even though the insured had delivered the sugar beets to the processor after the freeze.

Some insureds had already lifted enough tonnage prior to the freeze to exceed their production guarantee with FCIC, while others had not reached this point when the freeze hit.

FCIC recognized the fact that beets that were not lifted prior to the freeze were damaged. The sugar content was established by the processor and the reduction in sugar content was minimal, but unseasonably hot weather caused a continued deterioration of the beets that had been frozen. As beets lose their producer identity upon being stockpiled, FCIC management determined that to assure each policyholder was treated fairly, it would be necessary to wait until processing was near completion to make any determination as to the amount of indemnity, if any, due.

RAISING AND HARVESTING SUGAR BEETS

Question: The confusing and delayed answers to farmers' questions at time of harvest would lead one to believe that FCIC has very little knowledge about raising and harvesting sugar beets. Were farmers in on the structuring of the policy?

Answer: The FCIC Board of Directors is partially made up of active farmers. This Board reviews all crop policies prior to approval. Also, all proposed policies are printed in the Federal Register and are available for public comment.

QUESTIONS ABOUT HARVESTING AND GROWING SUGAR BEETS

Question: Many questions about harvest and growing conditions still go unanswered. One would be led to believe that FCIC and their agents didn't really know what they were selling. If they did not know what they were selling, how could the farmers know what they were buying?

Answer: The agents are required to complete a minimal of 40 hours training the first year and 20 hours each year thereafter.

CANCELLATION OF POLICY

Question: If FCIC admits there was a real problem with the coverage and the system under which it was sold, will it forego the penalty that farmers suffer for jumping in and out of the program, and will farmers who have refused to pay their premiums be exempted from penalties or deductions from other Federal programs until these problems have been ironed out?

Answer: Any farmer cancelling his insurance has the opportunity to reinstate for the following year without affecting his experience. Those farmers who do not reinstate the following year, do lose any good experience they have earned. It is a policy provision that the unpaid premiums are deducted from any ASCS program payments the farmer may have coming. This would not be done before a decision has been made on their claims with FCIC.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

CROPS AND ACREAGE PLANTED IN FY 1982 AND FY 1983

Question: What are the crops and approximate percentage of acres planted to those crops covered by Federal Crop Insurance in FY 1982 and proposed for coverage in FY 1983?

Answer: The table below indicates the crops insured by Federal Crop Insurance and the percentage of planted acres covered for FY 1982 and proposed for FY 1983.

Crops	Total Acres	Percentage Covered	
		FY 1982 (CY 1981)	FY 1983 (CY 1982)
Barley	7,233,000	71.7	99.9
Corn	82,322,000	86.1	99.9
Cotton	12,917,000	89.8	99.9
Grain Sorghum	12,722,000	95.0	99.9
Rice	3,295,000	78.6	99.9
Wheat	70,853,000	74.0	99.9
Dry Beans	1,836,000	51.0	82.1
Oats	8,640,000	59.7	82.0
Peanuts	1,406,200	93.1	95.7
Soybeans	67,856,000	87.2	98.8
Sugar Beets	1,187,200	84.6	96.4
Sunflowers	3,748,000	94.0	96.6
Tobacco	915,500	90.1	95.6
Almonds	347,200	42.1	97.7
Apples	578,000	14.7	20.6
Citrus	1,302,600	74.5	89.8
Flax	430,400	91.4	91.4
Forage (Prod & Seed)	26,385,400	1.6	1.9
Grapes	434,500	29.9	72.3
Peaches	262,600	12.3	16.4
Green Peas	364,000	55.3	75.3
Dry Peas	328,100	59.9	69.9
Potatoes	1,395,200	6.5	10.1
Raisins	328,000	75.7	95.0
Rye	438,400	1.6	16.7
Sugarcane	766,100	73.9	86.1
Sweet Corn	674,100	18.6	33.5
Tomatoes	425,300	46.7	57.3
Total	309,390,800		

NEED FOR ADMINISTRATIVE AND OPERATING EXPENSES

Question: If the number of crops covered was held at the FY 1982 level, how would this impact on your need for administrative and operating expenses in specific dollar terms?

Answer: The Corporation is expecting to provide coverage on 28 crops for fiscal year 1983 which is the same number of crops insured during fiscal year 1982. The need for the additional administrative and operating expenses for fiscal year 1983 is requested for expanding the program on the 28 crops to additional counties and eventually provide a nationwide crop insurance coverage of these crops.

The major portion of the increased funds requested is to increase the participation on those crops in the counties where crop insurance is already offered.

Any cut in the total increase of $176,103,000 in administrative and operating expenses would proportionately reduce the planned participation in the program.

PREMIUM SUBSIDY

Question: How much does it cost in premium subsidy per acre served of each of the crops currently covered and what are the anticipated costs associated with the expansion of the program per specific crop in FY 1983?

Answer: In accordance with 508(b)(3) of the Federal Crop Insurance Act, as amended, premium subsidy is paid by the Corporation based on each producer's premium rather than acres insured.

The following table indicates the estimated amount of premium subsidy by crop for fiscal years 1982 and 1983.

	Amount of Subsidy	
CROPS	FY 1982	FY 1983
Almonds	$ 172,429	$ 239,165
Apples	260,305	246,199
Barley	490,904	3,235,169
Beans	1,217,818	1,502,399
Citrus	1,113,253	719,252
Combined Crop	40,036	240,923
Corn	5,143,339	39,089,334
Cotton	1,186,874	11,861,506
Flax	152,248	192,856
Forage Production	3,725	9,379
Forage Seeding	3,882	2,931
Grain Sorghum	445,505	5,122,107
Grapes	308,193	382,194
Oats	853,984	1,166,513
Peaches	87,295	93,204
Peanuts	3,995,989	4,852,461
Peas	249,826	308,335
Potatoes	60,262	79,722
Raisins	675,968	636,014
Rice	389,619	1,348,231
Rye	253	586
Soybeans	26,599,423	35,045,812
Sugar Beets	800,382	1,078,585
Sugarcane	168,215	229,786

CROPS	Amount of Subsidy FY 1982	Amount of Subsidy FY 1983
Sunflowers	1,848,257	2,426,230
Sweet Corn	12,713	12,310
Tobacco	7,300,458	9,704,922
Tomatoes	87,058	93,204
Wheat	3,787,787	25,655,671
Total	57,456,000	145,575,000

CURRENT POLICY CANCELLATION DATA

Question: Please provide the current policy cancellation data by state and a comparison with the rates that occurred in 1980 and 1981?

Answer: The following table provides cancellation data by states for crop years 1980, 1981 and 1982. 1982 crop year data does not include transfers to reinsured companies.

State	Cancelled For 1980		Cancelled For 1981		Cancelled For 1982	
	Crops	%	Crops	%	Crops	%
	Acres	%	Acres	%	Acres	%
Alabama	275	23.1	99	8.5	1,137	17.2
	18,608	20.3	9,462	7.5	147,115	17.2
Arizona	68	37.4	71	33.5	23	11.2
	9,413	41.4	7,256	19.8	5,033	12.3
Arkansas	97	24.2	143	17.7	1,555	25.3
	10,338	21.7	22,968	14.7	329,468	26.9
California	545	18.7	673	22.2	390	21.7
	62,790	26.2	49,854	25.1	49,623	20.8
Colorado	436	18.3	404	16.2	619	18.1
	58,488	17.2	60,507	17.8	66,133	15.5
Delaware	51	17.2	27	10.2	26	8.4
	3,333	12.6	2,640	9.3	3,911	11.6
Florida	241	12.1	277	13.6	226	7.7
	6,102	7.2	14,881	15.6	18,203	8.8
Georgia	512	25.5	269	8.9	1,743	10.7
	18,603	25.4	9,596	4.7	168,691	10.0
Idaho	490	15.2	466	13.4	605	16.6
	25,582	12.1	36,534	14.8	51,358	21.3
Illinois	2,487	19.3	1,964	15.3	3,889	24.3
	135,773	18.9	112,120	15.3	279,904	26.4
Indiana	1,694	19.6	1,469	16.1	1,786	16.4
	62,903	17.3	73,934	18.6	108,754	20.0
Iowa	7,663	15.1	5,199	10.0	20,534	29.5
	438,048	13.0	343,614	9.4	1,746,895	33.1
Kansas	2,464	14.4	1,890	11.0	8,395	28.4
	172,329	10.9	181,880	11.2	600,602	24.5
Kentucky	1,963	15.4	2,275	14.1	3,923	18.7
	6,768	15.5	9,289	10.8	64,758	25.9
Louisiana	95	24.9	102	21.7	245	15.4
	21,245	28.5	19,468	21.5	65,720	17.0
Maryland	13	5.9	28	11.4	63	15.1
	543	2.5	1,348	5.7	4,893	11.5
Michigan	424	23.0	350	18.6	319	16.7
	12,512	22.1	14,104	22.3	14,531	19.6
Minnesota	8,092	17.3	4,595	10.4	8,420	17.1
	256,469	10.2	180,043	7.2	689,066	20.7
Mississippi	259	26.2	157	14.5	910	24.2
	59,843	24.6	38,357	13.9	329,969	28.2

State	Cancelled For 1980		Cancelled For 1981		Cancelled For 1982	
	Crops	%	Crops	%	Crops	%
	Acres	%	Acres	%	Acres	%
Missouri	1,738	23.1	970	13.8	5,392	32.3
	73,469	20.5	51,510	16.7	354,199	38.8
Montana	631	9.6	417	5.8	1,890	18.0
	80,858	4.4	116,603	5.1	727,256	21.6
Nebraska	2,443	12.8	1,982	9.7	9,222	29.0
	144,771	10.7	146,244	9.4	775,771	29.1
New Jersey	No FCIC program		No FCIC program		26	8.4
	in 1979		in 1980		1,568,	3.7
New Mexico	112	27.3	36	8.6	95	18.0
	6,433	26.8	3,513	13.1	10,176	16.3
New York	56	19.3	76	23.8	60	9.4
	1,038	13.4	4,521	34.6	1,628	6.0
North Carolina	3,255	12.8	2,944	9.9	4,233	11.0
	23,030	7.2	32,216	8.1	153,141	16.6
North Dakota	4,502	11.7	3,321	7.9	12,511	21.7
	245,362	5.2	432,880	7.4	2,194,842	25.5
Ohio	1,431	19.1	1,011	13.0	1,078	12.9
	36,434	17.3	35,439	15.6	37,459	12.9
Oklahoma	374	14.7	263	10.4	563	18.3
	37,698	11.9	39,611	11.5	82,901	18.3
Oregon	268	13.0	182	9.3	256	13.7
	26,581	6.0	40,920	9.3	50,443	12.3
Pennsylvania	233	18.6	190	16.3	450	18.1
	5,990	20.4	6,064	21.0	17,444	15.4
South Carolina	645	22.2	333	10.7	668	10.3
	22,256	31.5	8,701	10.7	50,985	10.5
South Dakota	2,775	17.8	1,895	11.7	13,481	43.3
	173,471	14.6	178,305	13.2	1,137,914	46.2
Tennessee	1,428	17.7	1,232	13.1	2,672	21.8
	7,905	23.8	14,589	18.5	80,731	36.4
Texas	1,057	19.3	1,278	20.2	1,859	24.5
	134,356	19.4	222,504	24.9	354,326	28.8
Utah	29	22.8	25	22.5	18	19.4
	636	4.5	6,353	49.8	1,842	27.1
Virginia	874	14.8	782	10.0	2,450	17.0
	4,170	7.5	3,750	4.9	73,802	19.6
Washington	454	11.6	783	17.1	693	16.5
	70,319	7.4	172,648	15.5	170,865	17.2
Wisconsin	2,369	21.7	1,983	18.7	1,754	17.8
	43,028	20.8	42,947	19.8	38,469	18.0
Wyoming	88	15.4	69	12.0	56	9.1
	11,803	17.4	13,506	20.8	5,224	8.3
U.S. Totals	52,631	15.9	40,230	11.5	114,235	22.6
	2,529,298	11.0	2,760,679	10.5	11,065,613	25.5

CURRENT LEVEL OF CANCELLATION

Question: Please provide an explanation of the current level of cancellation?

Answer: A sample consisting of 233 farmers was interviewed by telephone the week of March 15 to determine their primary reason for cancelling. The respondents represented nearly 70,000 policyholders who cancelled their All-Risk Crop Insurance by the December 31, 1981, cancellation date. The results of this survey are presented below:

Primary Reason	Percent
Not growing crop	3.0
No longer farming	11.2
Misunderstanding of program	9.0
Coverage complaint	23.2
Premium complaint	5.6
Transferred insurance	11.2
Cutting expenses	13.3
Inadequate service	2.5
Favorable crop prospects	9.9
Cancel every year	2.1
No longer felt need	6.8
Other	2.2
Total	100.0

Of the farmers interviewed, 54.5 percent stated that they planned to reinstate All-Risk Crop Insurance or were undecided. About 11.2 percent of the 30.9 percent planning to reinstate had already done so.

Further study and analysis of producer comments will be made before implementation of actuarial changes, education and training, administration and marketing improvements take place.

FCIC LEGAL SERVICES

Question: The notes indicate that part of the functions carried out under the general category of "contract servicing and claims" may involve litigation efforts. Does FCIC contract for legal assistance or does it rely on the legal staff of the USDA and the Justice Department?

Answer: The Corporation utilizes the legal services of the United States Department of Agriculture and the Justice Department.

ADVERTISING

Question: Please provide a specific figure on how much FCIC intends to spend on all advertising in FY 83 and how that compares with FY 82?

Answer: The Corporation plans to spend $9.3 million on education, information and promotional services, including all advertising, in fiscal year 1983. This compares with $6 million that will be required in fiscal year 1982.

PROGRAM DIRECTION

Question: The chart on page 256 of the explanatory notes appears to indicate that $2.1 million will be spent on actuarial analysis and program development, $5.3 million will be spent on field underwriting activities, and approximately $6.9 million will be spent for the "direction" of the $7.4 million of activity in the preceding two areas. It appears from just a cost perspective that we are spending a very large amount for the direction of activities. Please provide some explanation of this?

Answer: The $6.9 million represents a pro rata share of costs associated with program direction and control (including direction, coordination, control, and supervision of the program activities of the Federal Crop Insurance Corporation); administrative support (including personnel management, program evaluation and planning, budget, administrative, contract, and program accounting, procurement and supply management); and other administrative services not included above, (such as mail and messenger, printing and reproduction, rent, telephone and communications and services provided by other agencies under reimbursable agreements).

PRINTING AND REPRODUCTION

Question: Your costs of printing and reproduction have increased by more than 100 percent since FY 1980. What is the explanation for this increase?

Answer: During fiscal year 1980, the crop insurance program was operating in only 1,676 counties. However, with the enactment of the Federal Crop Insurance Act of 1980 (approved September 1980), the Corporation is involved in a rapidly expanding nationwide program which requires extensive use of various printed media to implement the program and inform farm producers who need to know about the availability of crop insurance protection to increase their participation.

EDUCATION, INFORMATION AND PROMOTIONAL SERVICES

Question: The notes indicate an increase of $3.3 million for a total of $9.3 million for "Education, Information and Promotional Services". Please provide additional detail concerning what these funds are being used for and why the additional funds are necessary?

Answer: The increase of $3.3 million in fiscal year 1983 for "Education, Information and Promotional Services', is requested to continue carrying out a nationwide expansion of crop insurance, if the program is to have broad coverage and be readily available to all farm producers as anticipated under the Federal Crop Insurance Act of 1980. The funds will be used for planning, preparation and distribution of informational pamphlets, brochures and other printed media that provides general crop insurance information to farmers, community farm leaders, farm educators, and other individuals who are interested in the benefits and operations of the Federal Crop Insurance Program. Also, the funds requested will cover the costs of press releases, radio, television and magazine materials which are essential to selling crop insurance to achieve a range of 40 to 50 percent rate of producer participation during 1983.

UTILIZATION OF ASCS COUNTY OFFICES

Question: Does FCIC currently utilize the ASCS county offices for providing any information to farmers concerning the FCIC program?

Answer: Yes, ASCS county offices are serving as FCIC's farm producers contact points providing information about the Federal Crop Insurance Program. Also, in some areas where an adequate private sales and servicing force is not available, ASCS will be selling and servicing all-risk insurance in their county offices.

OTHER RELATED MARKETING COST

Question: The notes indicate that $8.8 million for "other related marketing cost". Please provide additional detail what these funds will be used for and why an increase over current funding level is required?

Answer: The $8.8 million for "other related marketing cost" is required to cover a pro rata share of expenses associated with program direction and control (direction, coordination, control and supervision of the program activities of the All-Risk Crop Insurance Program), administrative support (personnel management, program evaluation and planning, budget, administrative, program and contract accounting, procurement and supply management), and other administrative services (mail and messenger service, duplicating and printing, rent, telephone and communications, and other services provided by other agencies under reimbursable agreements).

The $8.8 million requested for "other related marketing cost" represents a $2.5 million increase over fiscal year 1982. This increase is required in order to provide for growth in the crop insurance program for crop year 1983 that will increase farmer participation to about 50 percent of the potentially insurable acreage.

RENEWAL OF INSURANCE POLICY AND COMMISSION

Question: What is involved in the renewal of an insurance policy and what would the average commission to an agent be on this transaction?

Answer: The All-Risk Crop Insurance policy is a continuous policy. For each crop year that the insured or Corporation does not cancel the policy, it is automatically renewed after a given date for the succeeding crop year.

The average commission on a contract can be very misleading because the commissions rates are based on a graduated scale. However, using statistical data from 1981 nationwide, the "average" crop policy contains 92.1 acres and costs $6.92 per acre. On this basis, the average premium per crop contract would be $637. Under the Sales and Service Agreement, the carryover commission would equal $81.85. The carryover commission for an Agency Sales and Service contractor on the same premium basis would be $82.81.

OTHER RELATED SERVICING COSTS

Question: Please provide additional detail of the kind of activities that are funded under the heading "other related servicing costs" and what justification is there for an $8.3 million increase in these activities?

Answer: Of the $8.3 million increase for "other related servicing costs," $5.6 million is for other contractual services for establishing the farmers' individual yield coverage program; and $2.7 million increase is for administrative support costs associated with collections due from insureds obtaining acreage reports from policyholders, and handling loss claims submitted by insured farmers for payment of indemnities, answering inquiries from insured farmers, processing transfers of interest, handling collateral assignments, and keeping the insured farmers generally informed regarding the crop insurance program.

ASCS PERFORMING LOSS ADJUSTMENT

Question: Since ASCS has had the experience in loss adjustment under the disaster payments program, why couldn't those personnel be utilized to perform the loss adjustment activities of the crop insurance program?

Answer: Qualified ASCS personnel can be used by FCIC for loss adjustment work. To the extent these personnel are available for employment by FCIC, they will be utilized to meet workload needs.

COST COMPARISON OF DIFFERENT DELIVERY SYSTEMS

Question: Has the FCIC conducted any cost comparisons as to the cost of writing a policy under the old experimental program utilizing ASCS personnel and the cost under the current program?

Answer: Yes, the Corporation has been reviewing the costs of writing a policy under the old experimental program utilizing ASCS personnel that operated in 40 counties and 18 states and the costs of the current program operating in 3,000 counties in 48 states.

Question: What are those cost comparisons, if available, and if not available, please provide an estimate of those cost comparisons?

Answer: The overall average cost per contract for fiscal year 1981 was $209.76 for all delivery systems writing crop insurance policies including the ASCS delivery system. The cost per contract includes marketing and servicing costs excluding actuarial costs. The ASCS cost per contract from fiscal year 1977 through 1981 ranged from $129.89 to $144.74 for the period which involved mostly "over-the-counter sales" and produced no more than four percent of the total premiums written on approximately two percent of the total number of policies (contracts) handled by the Corporation.

UTILIZATION OF DEPARTMENTAL COMPUTER CENTER

Question: I have recently received reports of severe delays and problems associated with the computer operations in Kansas City. What is the current status of this situation, and what is proposed to correct this situation to avoid even more severe problems when the FCIC program expands?

Answer: FCIC utilizes the Departmental Computer Center (located in Kansas City, Missouri), for data processing. During the months of October and November 1981 several disk drive malfunctions occurred and resulted in degraded service. Engineers from the computer manufacturer were called in by the computer center and after several weeks of study they upgraded the disk drives with recommended engineering changes. These changes were completed by early January 1982 and we have not experienced similar downtime problems. The Kansas City Computer Center has also ordered an additional printer to take care of increased volume requirements.

Equipment improvements include: (1) a request for additional computer terminals which is pending Departmental approval, (2) pending installation of a high-speed data transmission line--projected for July 1982, and (3) proposed procurement of new remote processing equipment.

We are developing a data base which will support interactive inquiry capability for field offices and recruiting additional data processing personnel.

We have just initiated a decentralization of document previewing and coding to be accomplished in field offices and are making arrangements for data entry overload to be accomplished by a contractor.

TURN-AROUND TIME FOR DATA ENTRY INTO COMPUTER

Question: What is the current turn-around time for making indemnity payments, for paying commissions and for entering acreage data into the computer?

Answer: Currently 65 to 70 percent of documents signed by the insured are processed through the computer within 30 days of the date the document was signed by the insured. The delay on the remainder is caused by improperly completed documents that cannot be processed by the computer. These documents must then be returned to the field offices for completion or correction. Approximately 98 percent of these documents are processed in the ensuing 30 days.

Incoming documents are coded, blocked, and ready for data entry on a daily basis. Entry into the computer system is on a weekly schedule.

Earned commissions are paid on the basis of documents processed with a weekly schedule.

POLICY PAYMENT PRIOR TO HARVEST

Question: It is my understanding that there is currently under consideration a proposal to require payment on policies prior to harvest. Is this true? What is the specific proposal being considered and when might we suspect that it will be officially proposed.

Answer: Beginning with the 1983 crop year, the Corporation has adopted a plan for improved financial management which includes the dates of June 1 and September 1 for fall and spring planted crops, respectively, for initial billings. The insured will be issued a billing, and given until 30 days beyond the June 1 and September 1 dates indicated above to pay the premium. Should the premium not be paid by the named dates, interest will attach and be computed from the acreage reporting date for the crop. Additional interest will accrue until the account is paid in full.

ALLOCATION FOR DELIVERY SYSTEMS

Question: In reference to the delivey system, can you give me a dollar figure allocation from the total budget for the reinsurance, master marketers, individual agents and ASCS?

Answer: The Federal Crop Insurance Corporation's fiscal year 1983 budget request for administrative and operating expenses is $293,703,000. Of this amount, $105.5 million is requested for reinsurance expense, $56.4 million for agency sales and service agreements (master marketing agreements), $8.7 million for individual agents sales and service agreements, and $9.8 million for reimbursable services by the Agricultural Stabilization and Conservation Service.

TOTAL PREMIUM INCOME WRITINGS

Question: How much of the total premium income is being written by the reinsurance companies, master marketers, individual agents, and ASCS?

Answer: The Corporation is estimating total premium income of $876.7 million for the 1983 crop year. It is estimated that premium levels of $438.3 million, $350.7 million and $87.7 million will be handled by reinsured companies, master marketers, and individual agents, respectively. In areas where an adequate private sales and service force is not available, the Federal Crop Insurance Corporation will ask the Agricultural Stabilization and Conservation Service to sell and service the All-Risk Crop Insurance Program through their existing county offices.

SUBCOMMITTEE RECESS

Senator **Mattingly**. This subcommittee will meet tomorrow morning, Thursday, March 18, at 9:30 a.m., in this room, to hear Department of Agriculture representatives from the Animal and Plant Health Inspection Service, the Food Safety and Inspection Service, the Office of Transportation, the Agricultural Coooperative Service, and the Packers and Stockyards Administration.

The subcommittee stands in recess.

[Whereupon, at 12:08 p.m., Wednesday, March 17, the subcommittee was recessed, to reconvene at the call of the Chair.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

THURSDAY, MARCH 18, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 9:30 a.m., in room 1318, Everett McKinley Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senator Cochran.

DEPARTMENT OF AGRICULTURE

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

STATEMENTS OF:

- **C. W. McMILLAN, ASSISTANT SECRETARY, MARKETING AND INSPECTION SERVICES**
- **HARRY C. MUSSMAN, ADMINISTRATOR, ANIMAL AND PLANT HEALTH INSPECTION SERVICE**

ACCOMPANIED BY:

- **JAMES O. LEE, JR., ASSOCIATE ADMINISTRATOR**
- **JOHN K. ATWELL, DEPUTY ADMINISTRATOR, VETERINARY SERVICES**
- **HARVEY L. FORD, JR., DEPUTY ADMINISTRATOR, PLANT PROTECTION AND QUARANTINE**
- **LARRY B. SLAGLE, ACTING DEPUTY ADMINISTRATOR FOR MANAGEMENT**
- **THOMAS D. LYNN, ACTING DIRECTOR, BUDGET AND ACCOUNTING DIVISION**
- **ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE**

INTRODUCTION OF WITNESSES

Senator COCHRAN. The subcommittee will please come to order.

The subcommittee will hear this morning from several agencies within the Department of Agriculture concerning their budget requests for fiscal year 1983. We will have with us the Animal and Plant Health Inspection Service, the Food Safety and Inspection Service, the Office of Transportation, the Agricultural Cooperative Service, and the Packers and Stockyards Administration.

Representatives from the Animal and Plant Health Inspection Service will make up our first panel; Food Safety and Inspection

Service spokesmen will comprise our second panel; and the other three agencies will comprise our third group. We appreciate all of you being here this morning.

ACTIVITIES OF APHIS

The Animal and Plant Health Inspection Service conducts disease and pest control programs and other regulatory activities designed to protect the Nation's animal and plant resources. APHIS carries out a wide range of cooperative programs with State and local agencies and organizations to control, eradicate, and prevent the movement of plant and animal diseases and pests that damage American agricultural productivity. Its inspection and regulatory programs prevent the introduction into the United States of harmful pests and diseases of foreign origin.

I am pleased to welcome to the subcommittee this morning Bill McMillan, Assistant Secretary, Marketing and Inspection Services. He is accompanied by Harry C. Mussman, Administrator, Animal and Plant Health Inspection Service, and several other colleagues.

PREPARED STATEMENT

We have a prepared statement from Dr. Mussman, and we will make that a part of the record at this point, along with the biographical sketches.

[The statement and biographical sketches follow:]

PREPARED STATEMENT OF HARRY C. MUSSMA.
ADMINISTRATOR
ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Mr. Chairman, members of the Committee, it is a pleasure to appear before you again to discuss the Animal and Plant Health Inspection Service (APHIS) budget proposals. Your Committee and staff have for years demonstrated a thorough awareness of the need for, and a strong commitment to, safeguarding our Nation's high agricultural productivity from the impact of diseases and pests.

The past year has been challenging to APHIS, in both the technical and the financial management aspects of our protection assignment. We dealt with the Medfly and khapra beetle emergencies and Newcastle disease outbreaks while maintaining effective efforts in our ongoing activities.

The budget for 1982 was developed in a manner which had remained essentially unchanged over a number of years. However, for 1983, our budget proposals reflect a reconsideration of responsibilities and roles in guarding domestic production and protecting farm export markets. We have tried to react to new viewpoints in setting our priorities and carrying out our programs.

To help me present the program and budget proposals, I have with me the Associate Administrator, Mr. James O. Lee, Jr.; the Deputy Administrator for Veterinary Services, Dr. John K. Atwell; the Deputy Administrator for Plant Protection and Quarantine, Mr. Harvey L. Ford; the Acting Deputy Administrator for Management, Mr. Larry B. Slagle; and the Acting Budget and Accounting Division Director, Mr. Dennis Lynn. All but Mr. Lynn have appeared in past sessions. With your permission, a biographical sketch of Mr. Lynn will be submitted for the record.

APHIS 10-Year Anniversary

Mr. Chairman, the Secretary of Agriculture created the Animal and Plant Health Inspection Service 10 years ago, in 1972. In our early years we established a solid tone and pattern for the new agency, built a foundation of organizational expertise, and gained support from the producers and industry. Since I became Administrator, we have not only sustained these initiatives, but have endeavored to add to them, adapting APHIS to evolving agricultural needs and working for a high return on our investment in people and materials.

It seems fitting in our tenth anniversary year to review briefly the important changes in U.S. farm and livestock production which have affected APHIS and also to mention some of our Agency's accomplishments.

Changes in Agriculture

There has been a continuation of the trend toward larger, more concentrated farm and livestock operations. For APHIS, this means infection in a herd or the entry of a crop pest or disease is immediately more costly. Compound this with an acceleration in the speed of commodity movement and the increased vulnerability of our agriculture becomes clear. The Mediterranean fruit fly outbreak, khapra beetle infestation, and recurring problems with velogenic viscerotropic Newcastle disease (VVND) all are examples of both the need for rapid containment and the value of emergency response ability.

The pace of international travel has intensified since APHIS was formed. We expect 300 million people to enter the country in 1982; each is a potential carrier of agricultural pests or disease. Refugees land on our southeastern coast carrying meats and animals from countries such as Haiti, which has a serious disease problem with African swine fever. We are alarmed at the recent international spread of several dangerous diseases: Rift Valley fever has moved up the trade routes from East Africa to Egypt; African swine fever was carried in ships' garbage from Europe to the Americas; and heartwater disease has appeared in the Caribbean region. Plant pests, such as the Medfly and oriental fruit fly, are continuing threats from various parts of the world. APHIS port of entry inspectors annually impound tons of prohibited materials, but each year the pressures grow. The port of entry situation has been complicated lately by divergent policy paths taken by the various port of entry inspection agencies. As each agency seeks to facilitate the movement of passengers and cargo while fulfilling its own enforcement mandate, APHIS sees a clear need to assume a higher level of responsibility for maintaining agriculture oversight at an acceptable level.

Another modification in the regulatory or disease control situation concerns the availability of tools to respond quickly to pest and disease threats. Many chemical formulations have been removed from the market over the last 10 years. This has created a conflict between the demand for quicker response and the time required for new controls to take effect. Although APHIS cooperates with government and industry researchers on a regular basis to adapt concepts which might be successful in large area containment programs—APHIS has pioneered use of sterile insect dispersal programs, the use of predators and parasites, crop and livestock management improvements, and other environmentally acceptable approaches—the fact is, in a large-scale outbreak, these slower acting techniques become much more expensive as producer losses mount and the infested area expands. This is a lesson people were taught by the Medfly in California.

Last, there has been a growth in public awareness of APHIS activities. I welcome this and believe we have emerged with a strong image as a result of the increased attention and scrutiny. Clearly, we cannot please all segments of the public at the same time; sometimes conflicting demands cannot be reconciled. I am pleased that APHIS has upheld its mandate to play its part in keeping American agriculture the most productive in the world. Let me turn to some specific achievements of our Agency during its first 10 years.

APHIS Accomplishments

Several diseases and pests which formerly took significant tolls on American farm production are no longer problems. Hog cholera, in the United States since the 1830's, was eradicated in 1978 through an APHIS emergency program. The sterile screwworm fly barrier, established several years ago along the Mexican border, has been pushed southward into Mexico toward the Isthmus of Tehuantepec, where a permanent barrier will be maintained. We have eliminated infestations of khapra beetle and oriental fruit fly, either of which could cause significant long-term losses. The California VVND outbreak of 1972-1973 was eradicated before severe poultry losses occurred in other parts of the country; subsequent introductions have been contained shortly after detection and have not been permitted to threaten commercial poultry enterprises. The same is true for Venezuelan equine encephalomyelitis, contagious equine metritis, and other horse diseases which have arrived sporadically in the United States. Plant pests such as cereal leaf beetle, citrus blackfly, and West Indian sugarcane root borer are now reduced to levels where continued Federal involvement is not necessary. The list goes on—we plan to add the California Medfly to our success roster by next summer.

The APHIS emergency programs concept for animal diseases has proven to be an efficient way to provide and sustain a high state of disease control readiness. Emergency teams were activated to deal with VVND several times in recent years. The success of this animal disease emergency team approach convinced us to form a similar group for plant pest emergencies. In the last 2 years, this team has seen action in California and Florida on the Medfly and on the east coast against khapra beetle. The development and refinement of this emergency pest and disease reaction concept was a major accomplishment of APHIS' first 10 years. It has already been used as a model by a number of other countries around the world.

Another achievement is the close working relationship fostered between APHIS and our cooperators. State agriculture agencies, producer associations, regional boards or groups, and scholars at agricultural universities all help to support APHIS programs. The Agency serves individual producers and organizations in a cooperative effort to curtail losses to agricultural pests and diseases. APHIS diagnostic personnel staff a sophisticated laboratory and work with State diagnosticians on complex disease identification problems. Overseas markets are protected through our State-Federal export certification programs. Most APHIS activities are cooperative, with responsibility and costs shared on a negotiated basis. In the last few years, the APHIS-cooperator relationship has resulted in a fuller discussion and understanding of what can be done, how it should be done, and who should do it.

This cooperation is also evident on the international level. APHIS is recognized around the world as the leader in large-scale implementation of animal and plant health action programs. Our expertise and technical assistance has been provided to countries as diverse as Panama, Mali, and Japan. The APHIS thrust is to gather data and experience in cooperation with foreign agriculture organizations. Our veterinarians and plant protection experts monitor the movement of organisms which might at some point reach the United States: should a problem arrive here, we are prepared. Examples include the current African swine fever work in the Dominican Republic and Haiti, the program with Mexico and Guatemala on Medfly, and past observation of foot-and-mouth disease eradication in England. These efforts reduce the worldwide presence of agricultural dangers and the concomitant risk to the United States. International cooperation is a cost beneficial way to build our defensive capacity in advance of potential agricultural problems. We must sustain this aspect of APHIS' accomplishments to supplement the protective measures taken at our ports of entry.

I am pleased about this list of APHIS accomplishments over the last 10 years. With your support and a careful setting of priorities, I believe we can continue to provide the current amount of protection at an affordable cost. Just as soil erosion or nutrient depletion cuts into our production capacity, so also do animal and plant diseases and pests; they must be factored into every crop or livestock management decision. The work of APHIS will be even more important in the next 10 years, since our objective is even further reduction of losses and an increasingly favorable position for American agricultural products in the world market.

APHIS FY 1983 Budget

I would like to turn now to a discussion of the FY 1983 budget proposals. The APHIS budget for the upcoming fiscal year amounts to $227 million, of which $157 million is for animal disease control and $70 million is for plant protection. This total is $49 million below the FY 1982 appropriation. There are several significant changes, reflecting the Administration's policy that places a greater share of the responsibility for program financing on local governments, industry, and individuals. APHIS control and eradication programs produce immediate returns to the consumer through higher production, resulting from lower pest and disease incidence. In a direct sense, however, individual growers and producers benefit the most from these programs.

The largest APHIS program for many years has been for brucellosis eradication. The eradication effort was initiated in 1954. Since that time, disease incidence has been reduced to the present level of 0.42 percent. Past experience with animal disease eradication efforts of this nature has shown that the cost of eliminating the last vestiges of the disease greatly exceeds the damage caused by it. For example, the FY 1982 budget contains $91 million for brucellosis eradication while losses have declined to $30 to $40 million annually. Since the completion of the eradication effort is still several years away and will continue to require large resource commitments, the program was reexamined. Consequently, in FY 1983, the budget proposes to modify the direction of the brucellosis project toward control rather than eradication, with vaccination instead of depopulation as the principal tool. The protection available from vaccination and careful purchase of replacement animals should be sufficient to prevent a rapid rise to loss levels encountered in the early years of the eradication program.

Reductions are also proposed in several other animal disease control programs. Our work in animal welfare, cattle ticks, scabies, and tuberculosis will be curtailed or eliminated. Local governments, industry, and individuals should assume a larger share of program responsibility if they believe it is economically or socially beneficial to do so.

The total amount of reductions in animal disease control is almost $42 million. However, $9 million in increases are also proposed. Thus, the net amount of reduction for animal disease control is over $33 million.

APHIS domestic plant protection activities have been reviewed as well. Lower funding is requested for many in 1983. These include the eradication trial portion of the boll weevil program and our programs for golden nematode, grasshopper, gypsy moth, imported fire ant, miscellaneous plant pests, noxious weeds, pink bollworm, and witchweed. Reductions in the plant protection programs total almost $24 million, offset, as in the animal disease projects, by selected increases, for a net cutback of over $18 million. Again, many of these activities should be picked up by the States, industry, and farmers to the extent they believe control will be beneficial.

I will not tell you that there are no constituencies which will argue against these proposals. Nor will I tell you that there has been no progress in any of these activities. Some, such as the boll weevil project or imported fire ant, will be delayed until decisions on large-scale programs can be made. Others, such as brucellosis, tuberculosis, and witchweed, have reached the point where losses are much lower than in the past, making justification of our expenditures more difficult.

Several other APHIS programs are planned to continue at the 1982 rate. Now, however, I would like to update you briefly on two important segments of our work, plant pest detection and agricultural quarantine inspection, for which small budget increases are proposed.

An effective detection system for plant pests reduces costs to producers and the public because controls can be imposed before a pest gets out of hand. To improve our efficiency in this area, in 1981 and 1982 APHIS reassessed nationwide needs for pest detection. We modified the program to create a nationwide network incorporating the participation of farmers, university scientists, State and local governments, and APHIS coordinators all on the lookout for suspicious new pests or disease organisms. A rapid notification and alert mechanism guarantees that the response can be handled at a minimum cost. The Medfly was reported and the infestation delineated with this systematic survey methodology. We hope, over the next few years, to refine our pest detection system by building on the statistically based trapping arrays already present in high-risk locations. Our leading role in the pest detection area goes back many years, and it is very important to agriculture that Federal leadership be maintained.

The 1983 budget includes a slight increase for the agricultural quarantine inspection program. Last year, AQI personnel impounded 703,000 items of unauthorized plant material, 273,000 animal products, and 132,000 plant pests. Any one of these, if transported to an agricultural production area, could have created a serious problem. A solid port-of-entry inspection effort moderates pressure on our detection systems. We are now evaluating potentially useful electronic or mechanical methods of searching passenger baggage and freight for agricultural threats. Also, we are training nonaggressive dogs to sniff out prohibited items. Success of these alternate approaches will diminish our dependency on personnel increases to match the growth in international travel.

APHIS is working with other border and port inspection agencies to evaluate several possible procedural changes to expedite movement of passengers and baggage. Our principal concern must remain the mandate to intercept all threatening materials we can discover. We recognize that differences exist between the needs of travelers and regulatory agencies. The diverse mandates of the Federal inspection services create procedural conflicts. The APHIS' policy is to work toward reconciliation of disparate objectives so that we can accelerate passenger movement with no loss of agricultural protection. We are committed to serious consideration of any proposal which might reduce delays, yet not decrease the probability of interception. The small FY 1983 increase in agricultural quarantine inspection will go for salary costs. Also, a user fees arrangement is proposed for export certification. These AQI fees are consistent with imposition of more comprehensive charges in our animal import-export program. The total new APHIS user charges for 1983 is $3.6 million. The budget request has been reduced accordingly.

Another APHIS activity which has been slated for a budget increase is the screwworm program. The additional funds will help us maintain our momentum in Mexico, where we are making real progress in the drive to establish a sterile fly barrier at the Isthmus of Tehuantepec. Billions of flies have been raised, irradiated, and dispersed from our production facilities at Mission, Texas, and Tuxtla Gutierrez, Mexico. Years have passed since cattle owners in the Southwest were losing millions in screwworm damages--it was recently estimated that 1982 losses to screwworms would have approached $400 million without the

APHIS program. The level of screwworm program resource needs will drop dramatically as the barrier zone reaches the Isthmus. We expect this to happen by the end of FY 1984.

The government of Mexico has worked closely with us on the screwworm project. The Central American countries have watched the progress of our cooperative program with interest and have intimated their desire to carry it further down the Central American land chain, perhaps to the Panama-Colombia frontier.

The FY 1983 APHIS budget is affected by three factors: the generally difficult economic situation, the hard decisions which had to be made on USDA program priorities, and the desirability of securing more State and producer participation. APHIS will seek to work with the agricultural industry toward a new understanding of the Federal role which allows APHIS to contribute nationwide leadership and scope of authority. States, producers, associations, and others will be asked to advise us as to what they think can be accomplished within the money constraints. This way, when a program is carried out it requires a commitment from all involved; nothing is imposed from either the regulatory or the industry side without agreement on objectives and funding. APHIS must define these new relationships within the framework of our FY 1983 proposals and continue to explore other funding mechanisms which will allow progress at minimum Federal costs.

APHIS experience has proven that a strong offensive capability is often the best foundation for defensive success. Our positive efforts in APHIS to strengthen emergency reaction teams is supplemented by stepped up international involvement. Our objective is a total program package which meets the Nation's need for defense against agricultural pests and diseases. We must not simply wait for the arrival of these problems to react. In this context, I would like to describe one initiative we are taking to enable us to maintain our state of preparedness with available resources.

Basic Organization

The FY 1983 reductions brought to the forefront an issue which we had recognized in the past but never felt compelled to address. The APHIS budget request is constructed by individual pest and disease categories. As the funding requirements of these projects rise and decline, so does the overall APHIS budget. The APHIS mission to protect American agriculture is constant: it does not change as we move from project to project. To carry out our mission, we are faced with certain fixed costs. These expenses are constant, regardless of specific project activities. To perform our overall assignment we must maintain a nationwide presence. In the past, we have drawn sufficient resources from our total program funding to support a national pest and disease control configuration. However, as long as the APHIS budget request is developed and considered solely on a project-by-project basis, we remain uncertain about our ability to support a national structure.

APHIS has grown from the traditional "regulatory agency" concept toward an overall agriculture protection mission. Regulation is a vital tool, but strictly in the context of particular program objectives. The value of regulations is to provide a secure foundation for the agricultural protection we supply. The regulatory structure allows us to respond directly to industry needs through guidelines on animal and plant movement, treatment standards, and so on. The essential APHIS assignment is protection, not regulation, and a substantial part of the necessary components and activities in a basic APHIS organization are included to fulfill the role of protecting American agriculture.

In view of proposed reductions, APHIS is defining the basic resource and organization needs of an effective animal and plant pest and disease control operation. We are delineating our requirements on a region-by-region basis, in relation to domestic and international trade patterns, the likely avenues of pest and disease movement, the APHIS programs in place at present, and the changes we can predict over the next few years. We must also consider the revised understanding of the roles and responsibilities of the private sector and the proper division of labor between State and Federal governments. Only in locations where it could be justified in these respects would we place APHIS personnel. We must be assured that we still possess the full capability to either prevent introduction, or respond with trained personnel to delimit an outbreak quickly and contain it with minimum delay. There are several components and activities absolutely necessary in such an organization: quarantine inspections at the borders; a surveillance and detection component; laboratory diagnostic support; an international cooperation capacity; and emergency reaction cadres. Additional functions must be defined in relation to specific, short-term needs, as for example in an eradication program which has funding and producer support.

In a national economy where agriculture and agricultural exports play such a key role, APHIS must be organized to make use of all methods available to detect, intercept, or combat the broad spectrum of damaging insects and diseases which cut into our productive capacity. Our Agency is a national source of protection to one of the most efficient agricultural production systems in history. This change in approach is necessary for APHIS to remain the number one agricultural pest and disease control organization in the world at a time of diminishing resources. There is a point below which APHIS cannot realistically respond effectively to an outbreak.

To reiterate, we have seen the need to identify a basic organization--and a corresponding minimum level of resources--below which we would not be able to fulfill the APHIS mission. Such an organization would reflect the need to place priorities on key activities designed to fulfill that mission of protecting our national agriculture, but at the same time permit incorporating certain domestic programs which would enable us to continue the cooperative relationships with States and the industries that have worked so well in the past.

APHIS International Approach

Our review of the Federal functions necessary to protect American agriculture reemphasizes the importance of a small but active international component. This APHIS initiative secures the advantages of early warning and first hand experience at a very low cost. It is an extension of the quarantine barriers established at our ports. By reducing pressure at entry points through preembarkation inspection, by encouraging other countries to be aware of the serious consequences of pest and disease spread, and by training APHIS experts to deal with exotic problems, the international approach has been a logical progression from our customary quarantine inspection measures.

A further benefit is the improvement of agriculture systems overseas, accompanied by an orderly development of animal health and plant protection organizations. Foreign quarantines are then strengthened and the risk of new introductions to the United States declines.

The augmented protection for our farmers and growers from this early warning and preparation mechanism is worth far more than the dollars per year it costs APHIS to operate our international programs and regions. The cooperative relationships between the United States, Canada, and Mexico have been brought to perhaps their highest point in the joint effort on the African swine fever work in Haiti. As the amount of international trade and movement rises, the opportunity for pests and diseases to spread also goes up. Many agricultural problems periodically fluctuate across growing areas or ecosystems. Each increment of warning we can secure will be valuable if a pest population or disease incidence level begins to build. Advance distribution of drugs or treatment information can reduce losses. The APHIS international activity is a small but important means to supplement our protection at a reasonable price. This Committee has supported APHIS initiatives in this area. We are proceeding toward a carefully designed regional structure for plant protection and are including a veterinary presence where appropriate.

APHIS Future

I would like to conclude my presentation on APHIS and the FY 1983 budget proposals by sharing with you some speculations on what the future may bring and how well we are prepared to face it. Clearly, the budget for 1983 will have impact on APHIS for many years. It calls for an examination of the traditional concept of agricultural protection roles and responsibilities. Our past practice of attacking diseases and pests one by one, moving over a period of years from one eradication project to another, has produced results. But the nature of these pests and diseases and the economics of our kind of work inevitably mean that it costs much more to find and eliminate the last remnants of infection or infestation than to reduce incidence levels at the program's outset. This has caused some hesitancy in committing resources to extended, expensive eradication proposals. Given this viewpoint, it is prudent to develop a detection and reaction capacity which can be called upon instantly to ensure that exotic organisms do not enter, become established, and reduce agricultural output.

Although APHIS programs are among the most cost beneficial of Federal government services, like other agencies we must adjust to changing technical and budget realities. The United States is the world's breadbasket; our agricultural productivity is a result of the ability and ingenuity of American farmers, our relative freedom from pests and diseases, and a national policy commitment to defend American agriculture against the entry of exotic threats to our crops and livestock. APHIS must continue to devise cost effective ways for curbing the impact of endemic pest and disease problems. At the same time, it is essential to minimize the risk of introduction and unmonitored spread of exotic insects or disease organisms. If we do our job well, the farm export market will be solid and profitable so that agricultural production will further improve our balance of trade. We must be able to demonstrate to other countries that the United States is either free of pests and diseases which could be transmitted through our export channels or that we can exactly delimit and control the infestation. This requires a fully trained, dedicated work force operating within specified limits of Federal leadership and coordination. As long as these aspects of the APHIS assignment are understood and supported by the agriculture industry, the government, and the public, I am sure that we can make any adjustments necessary to obtain an effective match between budget resources and agricultural protection.

Mr. Chairman, members of the Committee, thank you for inviting me to speak with you today. I am ready to answer any questions you may have about APHIS, my presentation, or our budget proposals.

Biographical Sketch

Thomas Dennis Lynn

Dennis Lynn was born March 25, 1943, in Baltimore, Maryland. He received his Bachelor of Science degree in accounting from the University of Baltimore and did graduate study at the University of Southern Illinois in public administration. Mr. Lynn has been with the Department of Agriculture since 1971, where he has been employed as an operating accountant, systems accountant, management analyst, and financial manager. He is currently serving as the Acting Director of the Budget and Accounting Division for the Animal and Plant Health Inspection Service. He is a Certified Public Accountant, licensed to practice in the State of Maryland. Mr. Lynn is a member of the Board of Directors of the Village of Dorsey's Search, where he resides in Ellicott City, Maryland. He is married and has two children.

INTRODUCTION OF ASSOCIATES

Senator COCHRAN. Secretary McMillan, I invite you to make any statements or comments you may have at the outset of the hearing, or to proceed in any manner you wish.

Mr. McMILLAN. Thank you very much, Mr. Chairman. It is a distinct honor and pleasure to once again appear before you to discuss the fiscal year 1983 budget request for the Animal and Plant Health Inspection Service. You have already introduced Dr. Mussman. I would like to introduce Mr. James Lee, Associate Administrator; Dr. John Atwell, Deputy Administrator, Veterinary Services; Harvey Ford, Deputy Administrator, Plant Protection and Quarantine; Larry Slagle, the Acting Deputy Administrator for Management; Thomas Lynn, the Acting Director of the Budget and Accounting Division; and Mr. Robert Sherman, the Deputy Budget Officer for USDA.

I ask, please, that Dr. Mussman now be recognized to present the formal APHIS budget request.

Senator COCHRAN. Thank you very much, Mr. Secretary.

As we indicated, Dr. Mussman, we put your entire statement in the record. Any summary or comments you would like to make, we would appreciate hearing.

REVIEW OF SERVICE ACCOMPLISHMENTS

Dr. MUSSMAN. Thank you, Mr. Chairman. I would like to give a very brief synopsis of the formal presentation to which you referred.

I would like to say that we are very pleased to be here again this year. This is the tenth anniversary of the Animal and Plant Health Inspection Service, and it seems appropriate that we spend a few moments reviewing some of the significant events of the past 10 years.

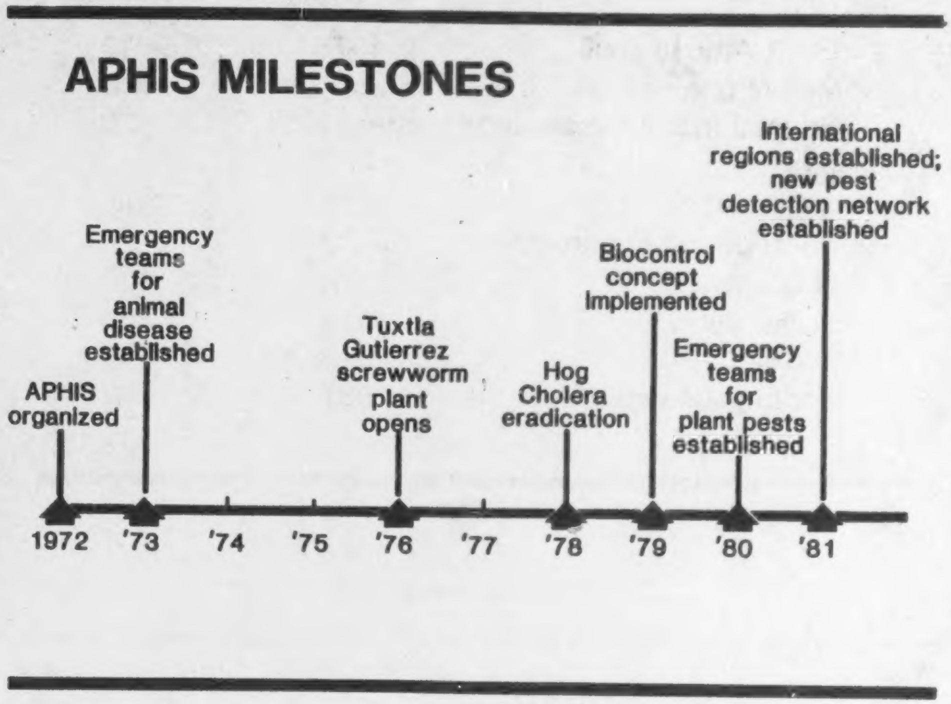


Chart 1

APHIS ACCOMPLISHMENTS

Our first visual, Mr. Chairman, lists a number of things that APHIS has accomplished during those 10 years which, we believe are of sufficient importance to single out for your attention.

I won't go into great detail, but would like to mention the importance of the emergency team concept. This approach worked so well on the animal disease side that we have adopted it on the plant health side in the last few years. It has worked equally successfully there, particularly in the Medfly outbreak in California.

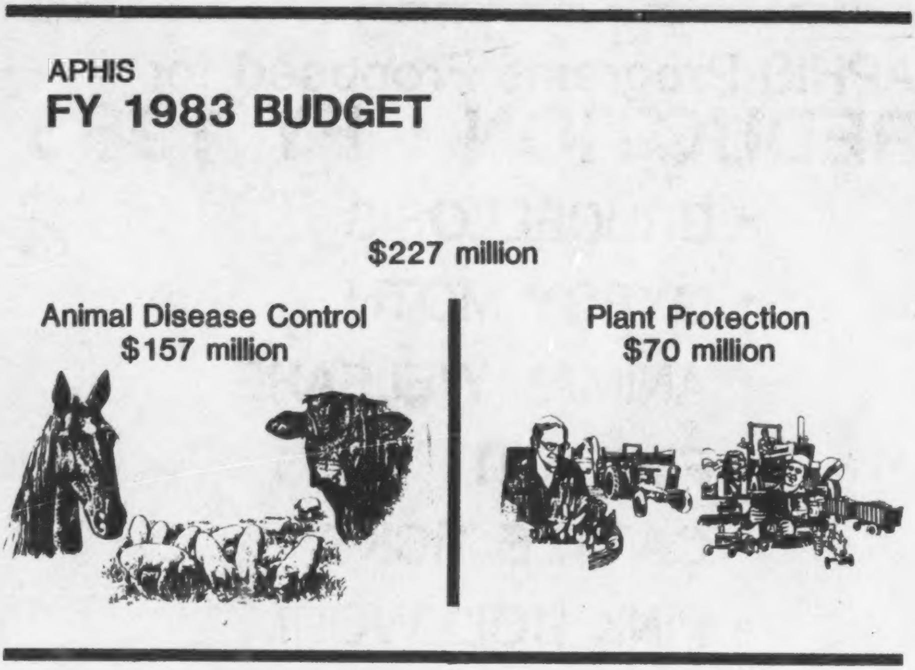
APHIS ERADICATION ACCOMPLISHMENTS

	Date eradicated	Annual losses without APHIS programs $ millions
Plant		
·Giant African snail	1975	$ 19
·Medfly (mainland)	latest 1981	500
·Oriental fruit fly (mainland)	latest 1981	70
Animal		
·VEE	1971	200
·Psoroptic sheep scabies	1973	28
·Hog cholera	1978	400
·Screwworm	1979	400
·VVND	latest 1981	400
·Contagious equine metritis	1981	12.5

CHART 2

ERADICATION GOALS

Beyond these milestones of the last 10 years, we have achieved a number of significant eradication goals which, I think, merit this committee's consideration. The list is relatively long and quite impressive. Had we considered accomplishments before the seventies, the list would be substantially longer, but even the number that you see here is rather impressive. Singling out the screwworm program, the livestock industry has saved about $2.5 billion since we eradicated this pest from the United States several years ago. The total savings from the listed plant and animal pests eradicated are in the neighborhood of $2 billion per year.



APHIS
FY 1983 BUDGET

$227 million

Animal Disease Control
$157 million

Plant Protection
$70 million

CHART 3

FISCAL YEAR 1983 BUDGET

With that brief introduction, Mr. Chairman, I would like to discuss the 1983 budget which includes significant changes from the operating level of this and recent years. It represents approximately a $50 million decrease from the 1982 level. The budget reflects the determination that Federal spending has exceeded its proper level and recognizes the need to ask the States, individual producers, and involved industries to assume a greater share in support of animal and plant health programs.

As you can see, approximately two-thirds of our budget is dedicated to animal health programs and approximately one-third to the plant health side.

PROGRAMS PROPOSED FOR REDUCTION OR ELIMINATION

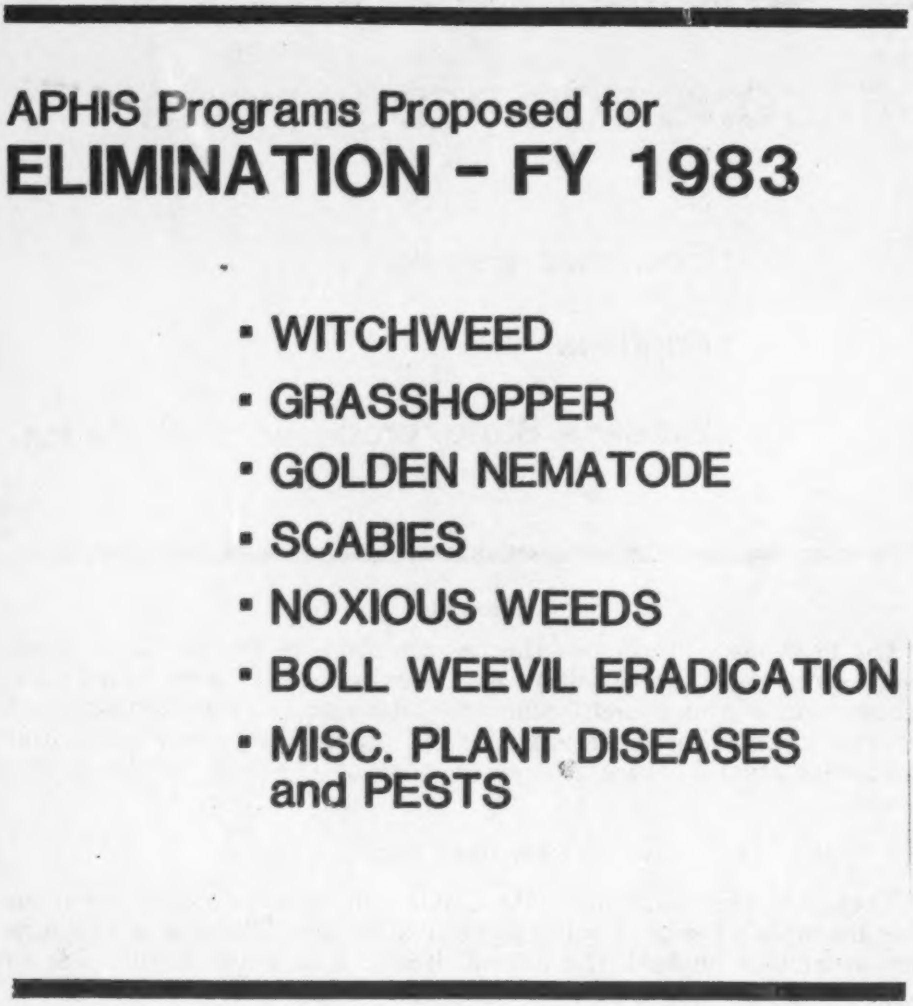
The need to reduce spending forced us to make a number of judgments from a policy standpoint which affected several programs.

APHIS Programs Proposed for
REDUCTION - FY 1983

- BRUCELLOSIS
- GYPSY MOTH
- ANIMAL WELFARE
- FIRE ANT
- CATTLE TICKS
- PINK BOLLWORM
- TUBERCULOSIS
- EMERGENCY PROGRAMS
- MEDFLY
- BIO CONTROL
- HORSE PROTECTION

CHART 4

On the next visual, we have listed those programs to be completely eliminated from the APHIS roster of activities, in the order of magnitude of the cuts involved. The plant programs are in green, and the animal programs in orange.



APHIS Programs Proposed for
ELIMINATION - FY 1983

- WITCHWEED
- GRASSHOPPER
- GOLDEN NEMATODE
- SCABIES
- NOXIOUS WEEDS
- BOLL WEEVIL ERADICATION
- MISC. PLANT DISEASES and PESTS

CHART 5

Going on to the next chart, we have a list of the programs which were partially reduced, again listed in the order of magnitude. You can see that a substantial number have been reduced, many rather significantly. Brucellosis leads the list, taking a cut of approximately $30 million.

REASONS FOR REDUCTIONS

- Economic situation
- Priorities
- Increase State/producer participation

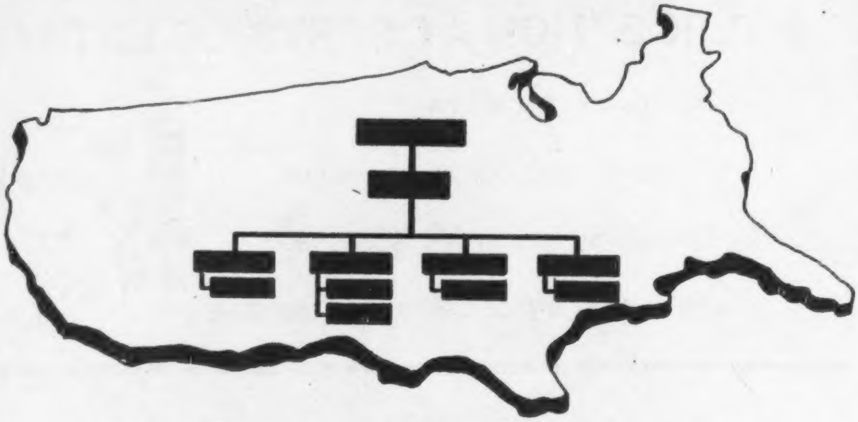
CHART 6

The next visual indicates the basic reasoning we used in making these reductions and eliminations. These decisions were based on a recognition of the present economic situation, a reconsideration of priorities, and the belief that the States, industry, and individual producers should share a greater part of the cost of these programs.

NEW USER FEES

There are two reductions, Mr. Chairman, which do not appear on this list which I should bring to your attention. There is a $1.8 million reduction on both the animal health and plant health side to reflect the institution of user fees to support certain activities. On the plant protection side, we are seeking $1.8 million in user fee recovery for the issuance of phytosanitary certificates for exporting plants and plant products. On the animal side, the $1.8 million is for issuance of certificates for exporting animals and full cost recovery at our animal import quarantine stations.

APHIS BASIC ORGANIZATION



TO MAINTAIN AN ADEQUATE LEVEL
of AGRICULTURAL PROTECTION

CHART 7

APHIS BASIC ORGANIZATION

In recognizing the impact of this budget, we have reconsidered the role and needs of the Animal and Plant Health Inspection Service. When we recognize that some $75 billion a year are lost to animal diseases and plant pests—approximately half of this loss is the result of introduced or exotic animal diseases or plant pests—it becomes clear that we should focus more carefully on methods to reduce the likelihood of major economically significant outbreaks. With this in mind, we reexamined our various program activities and how our budget is prepared. We realized that we should take steps which would preserve the ability of the Animal and Plant Health Inspection Service to continue protecting American agriculture in the manner for which we have developed such a good reputation. In doing so we determined that we had to define some basic agency needs including personnel, their distribution, and the resources needed to carry out the mission of APHIS.

INTERCEPTION AT PORTS OF ENTRY

- 300 million travelers
- Baggage and cargo inspection
- Livestock quarantine stations
- Prevent entry of pests and disease

CHART 8

BASIC ORGANIZATION COMPONENTS

We have identified the components of a basic organization. The first that I would like to mention, as shown on the visual, is an activity extremely important to the total package; intercepting and preventing the entry of exotic plant and animal diseases and pests at our borders, including international airports and land and vehicle crossings. In excess of 300 million people come into the United States annually, and each one is a potential carrier of agricultural goods presenting a risk to the American agricultural economy. The rest of the items on the visual, Mr. Chairman, are self-explanatory.

SURVEILLANCE AND DETECTION

- Nationwide pest and disease survey and analysis
- Laboratory diagnostic support
- Rapid notification and alert
- Delimit outbreaks
- Regulatory action as needed

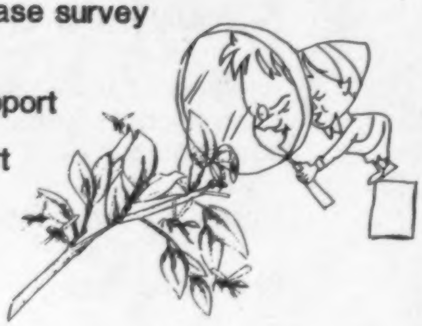


CHART 9

SURVEILLANCE AND DETECTION

A second component of this basic organization is a system of surveillance and detection. This system permits us to identify where problems exist, diagnose them quickly, and take appropriate action as soon as possible to contain the problem.

LABORATORY AND TECHNICAL SUPPORT

- Technical leadership
- Analysis of domestic and international disease and pest situation
- Methods development
- Diagnostic capability
- Quality control of biologics

CHART 10

LABORATORY AND TECHNICAL SUPPORT

The third component is the laboratory and technical support that is necessary to back up the surveillance and detection efforts. Here we have a very important relationship with the States, because many of the States don't have the laboratory capability to deal with diagnostic work related to exotic diseases. So, in this sense, we are supplying a national laboratory capability for both State and Federal activities to support the surveillance and detection of animal and plant pests and diseases.

QUICK REACTION TO PEST AND DISEASE OUTBREAKS

- Nationwide capability
- Trained multidisciplinary personnel
- Contain and minimize losses

CHART 11

EMERGENCY RESPONSE CAPABILITY

The fourth component on the domestic side is an emergency response capability in the event of an introduction of an exotic plant pest or animal disease. This requires a national capability, as you can appreciate, Mr. Chairman, because oftentimes a number of States become involved. Working on a State-by-State basis would not adequately respond to the problem. A Federal presence is necessary to control animal and commodity movements across State lines and to assure that whatever is responsible for the outbreak is not disseminated from the initial outbreak location.

In addition, the Federal presence is absolutely necessary in the certification of exports. The Federal Government is the only entity from which importing countries will accept such certification. We rely on their governments to give us this kind of certification; they in turn require that we certify products that are moving to their countries.

Together, these various components of our domestic activities provide the protection of American agriculture to which I referred earlier.

ACTIVE INTERNATIONAL ROLE

- Advance warning—reduces pressure at U.S. ports
- Develop personnel and techniques
- Reduced threat from exotic pests and diseases
- Low cost—high returns

CHART 12

INTERNATIONAL COMPONENT

We have a fifth aspect of this program, Mr. Chairman, which we have been developing gradually in recent years and are refining even more now. This is the international component of the agency—placing people in sites outside of the United States. We do this not simply to have a physical presence, but also to carry out important work extending the perimeter of our protection system beyond our actual borders. In other words, we don't want to wait for a disease or pest to arrive at our ports of entry before taking action. We would rather prevent the arrival of such problems by working with the countries from which potentially harmful products or commodities are coming. We have people located in various parts of the world, with the greatest concentration in Latin America. We intend to increase this capability in the future to work closely with other governments and their appropriate agencies not only to prevent the movement of threatening products to the United States, but also to describe how we carry out our programs here to enhance the acceptability of our products and commodities. So, our international activities have both import and export importance.

COOPERATION WITH STATES

Underlying our whole approach, Mr. Chairman, is the importance that we must attach to cooperation with the States. Over the years the Animal and Plant Health Inspection Service has worked very hard at establishing close ties both on the plant health side and on the animal health side. We work cooperatively with the State personnel involved in these activities, and we don't want to lose this relationship. In fact, we would like to strengthen the existing ties in light of the proposed budget for 1983 which calls for the States to pick up some of the things that we have done ourselves in the past. Any future APHIS structure must recognize the importance of cooperation with the States, and we will be giving full attention to this.

Mr. Chairman, I don't want to leave the impression that the $227 million budget proposed for 1983 equates with the basic organization which I have just described. We don't know yet what that basic organization will require in terms of people, their location, and the type and level of resources. We hope to have that in a relatively short time. In the meantime, however, we believe that this budget, with the States, individual producers, and industry picking up some of the proposed reductions, will enable us to maintain the kind of protection we have provided successfully for our agricultural economy in the past.

Mr. Chairman, that concludes my remarks. I want to thank you for inviting us to testify, and we would be glad to answer questions at this time.

BRUCELLOSIS ERADICATION

Senator **Cochran**. Thank you very much, Dr. Mussman.

I am, frankly, concerned about the substantial decrease in the budget request this year as compared with the last year's funding level, particularly in view of the fact that you point to some impressive statistics about how much money has really been saved to consumers and the industry as a result of certain programs for eradication of pests and diseases. I think you highlighted the screwworm success story that you are able to point to as saving over $2 billion because of a comparatively modest investment that was made in an effective prevention program.

In that connection, in the case of the brucellosis problem, with the proposed reduction of $31 million, I wonder whether or not we are going to miss an opportunity to achieve the same kind of success story.

Dr. **Mussman**. Mr. Chairman, I am simply not able to tell you at this time what the future holds for the brucellosis program. As I mentioned during my testimony, we propose that the States and the industry involved should accept more responsibility for the cost of the program. We are not able to predict at this time to what extent they may do so. If indeed they are as responsive and are as committed to the program as they seem to be, the likelihood is great that they will pick up that part of the financial support which the Federal budget proposes to drop. This would maintain the program and ultimately lead toward full eradication of brucellosis. But it is simply too early to tell at this time what kind of future program will emerge in the face of these cuts.

Mr. **McMillan**. Mr. Chairman, may I expand a bit on Dr. Mussman's response. It is our feeling, and I think generally the feeling of the cattle industry, which is directly affected by the cutback in the brucellosis program, that they assume a greater share of the cost and responsibility for the eradication of brucellosis. The cuts largely are going to affect such things as the indemnity payment program which represent cash outlays. The cuts will not necessarily have an effect upon the personnel working with industry and the States toward eventually eradicating brucellosis. We also want to put greater emphasis on a vaccination program. We will be proposing a cutback in payments for vaccine and payments to veterinarians for the vaccination of cattle.

I am of the opinion that we can structure a program within the funds that we are requesting to not only hold the line on brucellosis, but also eventually eradicate the disease—particularly with the cooperation of the industry. I think it is significant that just this week, for example, the board of directors of the National Cattlemen's Association adopted a resolution, which is in support of the budget request submitted by the Department for fiscal year 1983.

Senator COCHRAN. Specifically, for the brucellosis cutback?

Mr. MCMILLAN. Yes, sir.

IMPACT OF BRUCELLOSIS REDUCTION

Senator COCHRAN. Tell me the practical impact on your average cattle farmer of the proposed cutback in payment for vaccine and veterinary medicine expenses, as well as, on the indemnity program. If you just take the case of a farmer who has a couple hundred head of cattle, what does this mean to him in terms of expenses of maintaining that herd and vaccinating that herd under the practices that he should follow to keep out brucellosis?

Dr. MUSSMAN. Mr. Chairman, we could come up with an estimate of these costs for you at a later time, but at the moment I could only say that there would be an increase in the cost of producing and maintaining those animals. I really can't put a figure on the degree to which an individual farmer would be affected at this moment.

Senator COCHRAN. It is going to be kind of hard for us to judge how well industry can absorb these expenses if we don't know what the expenses really are. You tell us most of the cut is designed to do away with the indemnity program, but there also is some cutback in payments for vaccination and veterinary expenses.

Dr. MUSSMAN. The difficulty, Mr. Chairman, is that there would be a marked variation in the way in which individual producers will be affected.

Senator COCHRAN. How did you use the money last year? That would be one indication; wouldn't it? Can you look at your outlays last year? You had a budget specifically earmarked for brucellosis eradication.

Dr. MUSSMAN. Yes.

Senator COCHRAN. Can you tell us how much was spent for indemnity payments and how much was spent to pay for vaccination programs and the like?

Dr. MUSSMAN. We spent over $26 million on indemnities last year. Vaccination costs were $3.5 million. Our field, laboratory, clerical, and testing agreements—these are cooperative agreements or contracts with States, accredited veterinarians for testing, or packing plants for blood collection—were about $17.3 million. We spent $28.3 million for salaries and benefits for Federal employees. The additional costs of the program such as travel, rental of office space, supplies, and the equipment used for handling cattle came to another $14.5 million. That totals just at $90 million.

Senator **Cochran**. OK, this is very helpful to us. It looks as though the bulk of the $31 million that is being cut out of the request for next year would include, if we had the same amount of this indemnity expense next year, almost $27 million in indemnity payments and almost $4 million in vaccination and veterinary expense costs.

REDUCTION IN BRUCELLOSIS INDEMNITIES

Dr. **Mussman**. It won't work quite that way, Mr. Chairman. We anticipate there will be reductions in each of the categories that I identified. Not all of it will be taken out of, for example, indemnity. We propose to reduce substantially the level of indemnities being paid, but not to discontinue them completely. We would also reduce in some degree each of the other categories, including the number of personnel and related salaries.

Senator **Cochran**. Have you been making these indemnity payments in accordance with congressional mandate or is that something that you just decided to do on your own?

Dr. **Mussman**. It is a system which has evolved over the years in recognition of a constitutional right that an individual has when his property is taken from him, as diseased animals are being taken in this case. He has the right to be compensated for that property.

Senator **Cochran**. Do you anticipate next year that there won't be any cattle taken away or any diseased cattle claimed and destroyed?

Dr. **Mussman**. There will be animals taken away. As I said, we are not talking about eliminating indemnities entirely, simply reducing them so the Federal share will be somewhat less than in the past.

Senator **Cochran**. How do you know if you are going to reduce that? If it is a constitutional right and you feel like you are responding to a claim that is based on the Constitution, I don't know how you are going to get out of making those indemnity payments unless you get us to change the Constitution somehow.

Mr. **McMillan**. Mr. Chairman, in partial response to your inquiry, I would point out that even though a beef cow may test positive in any of the tests, there is an absolute salvage value to that animal. There is nothing wrong with that animal going to slaughter, and it can be determined to be totally wholesome for human consumption. It is not a 100-percent loss to the producer. The indemnity payments will be directed largely toward those higher-value animals, such as dairy cows or purebred beef cows. They carry a higher value in commercial operations. So, the producer does not suffer a total loss. I think that is very important for you to understand. There is salvage of monetary value going to the producer.

Senator **Cochran**. So, you anticipate making indemnity payments next year in some way.

Dr. **Mussman**. Yes; we do.

Senator COCHRAN. Do you have an estimate of how much you think you will have to pay out next year for indemnity?

Dr. MUSSMAN. The estimated level of indemnification for 1983 would be over $8 million, a reduction of two-thirds from the current level.

Senator COCHRAN. How do you know that just grade cows are going to have to be claimed and slaughtered and that you are not going to have any expensive purebred, fancy cows?

Dr. MUSSMAN. Some of each will be slaughtered; that is, the pure-bred type, the highly valued ones to which the Assistant Secretary referred, and the grade animals, the commercial animals that don't have quite that same value. As we propose to reduce the level of indemnification, we recognize that the industry is going to have to assume more of these losses than they have in the past. In some cases the States may increase the level of participation in indemnification over what they have been paying in the past. There are many States whose indemnification is parallel to the Federal system.

Mr. MCMILLAN. I think it is important to recognize, Mr. Chairman, that there are those States where brucellosis has been more of a problem than in other States. In other words, those States that have made substantial progress in eradicating the disease have not received proportionate indemnity payments nationwide as have those States with higher levels of brucellosis.

CHANGES IN VACCINATION

Senator COCHRAN. Are there going to be changes made in the vaccination program? Don't you have a nationwide program that is designed to eradicate brucellosis that has been underway, implemented as a matter of policy in the Department? You have gone out and sold the industry on following these rules and abiding by regulations. Is part of that deal to help pay for the cost of a vaccination program?

Dr. MUSSMAN. That has been part of the program in the past, Mr. Chairman.

Senator COCHRAN. How has that worked? Have you had a 50–50 cost share, or how has that worked in practice?

Dr. MUSSMAN. The relationship with States has been about 60–40 for all costs of the brucellosis program. Federal support for calfhood vaccination varies by State. We have provided funds to purchase vaccine to any State requesting assistance. Support for administration of vaccine has been restricted primarily to higher incidence States with individual herd owners paying for administration of vaccine in most free and low-incidence States.

Senator COCHRAN. Is the Federal Government responsible for 60 percent of the expense and State governments 40 percent?

Dr. MUSSMAN. Yes; although the States have been required to pay 40 percent, there are many that have exceeded the 40 percent share.

Senator COCHRAN. What has changed to make that expense less next year than it was this year?

Dr. MUSSMAN. The vaccination costs will continue where vaccination is deemed desirable. But we propose that the producers themselves should pay for the cost of that vaccine and also for the administration of the vaccine.

Senator **Cochran**. What kind of participation have you had with the program up to this point, with the 60-40 division of financial responsibility? Have cattle producers been taking advantage of the opportunity to vaccinate their herds?

Dr. **Mussman**. Some States have vaccinated to a greater extent than others, as you might expect. There have been States in which the program has had a very slow start; other States jumped in immediately and initiated many actions unilaterally to speed up their program. At the moment we have a number of States in what we call an accelerated program, where additional resources from the Federal side have been earmarked to enhance State efforts to reduce the high incidence of brucellosis which exists in those States. We have been talking with representatives from the States in recent weeks, and we will be continuing to do so. There is tremendous interest in increasing the vaccination efforts even in the face of the Federal budget reductions. These States are asking that with the reduced level of funding that will be available, they be fully involved in determining how that money is earmarked within the State for use. They would also like some flexibility to control where that money goes and some desire to place emphasis, in many cases, on a vaccination program, such as you mentioned a moment ago. We see the future program being a full partnership with the States, with the States having a very important part in determining their needs and planning programs within the levels of funding available from Federal, State, and industry sources.

FUTURE NEED FOR SUPPLEMENTAL FUNDS

Senator **Cochran**. I am worried that what is going to happen, if we approve this request, is about halfway through the year we are going to be confronted with claims under the indemnity arrangement, and you are going to have insufficient money in your account to pay those claims. Then, you will come up here and try to convince the Senate, and the House, too, that we have to provide some extra money for the Department of Agriculture to make indemnity claims to farmers under the brucellosis program. Attention is going to focus on it on the floor of the Senate, and you are going to find it very difficult to get that supplemental approved. Then you are going to have trouble on your hands. They are going to file suit, if there is a constitutional basis for the claim, reduce those claims to judgments, and then what are you going to do?

I worry. I am not suggesting that you are playing games with these numbers or anything. But if you anticipate that there is going to be a legal obligation to pay money out next year and you are making a request for about a third of the expense of the program for last year without any basis for knowing that the actual expense is going to be just a third, you are putting the Congress in a very awkward position.

Mr. **McMillan**. Mr. Chairman, the plan is not to continue a brucellosis eradication program per se in fiscal year 1983. It is a movement to a control type program, which puts it in a different category.

I think it is the responsibility of the Department of Agriculture to design the rules that we will be following, including that of indemnity, to assure that it is not necessary for us to come to the Congress seeking a supplemental appropriation. That is my intent in a policy sense, for us to design a program which avoids any need for a supplemental.

Senator COCHRAN. If you have an expensive dairy herd that contracts brucellosis, is that herd required to be destroyed under the law?

Dr. MUSSMAN. No; it is not, Mr. Chairman. Under the system now in place for fiscal year 1982, for fiscal year 1981, and the most recent past, we might have depopulated the entire herd simply because it was the most expedient way to get rid of the problem. Given the budget for 1983, we would have to resort to other means of approaching this problem. It would mean repeated testing and removal of any reactors, while trying to leave the bulk of that herd to subsequent testing in order to eliminate only those animals that are causing the problem. It is a long and drawn out process, I admit. Nevertheless, it is an option that has been used in the past and can be used in the future. I might also add that adult vaccination is being used in many infected herds to increase immunity. This reduces the number of infected animals that must be removed.

REDUCED BRUCELLOSIS INCIDENCE

Senator COCHRAN. Has progress been made under the program and regulations that currently exist in reducing the incidence of brucellosis in America?

Dr. MUSSMAN. We have reduced the incidence of brucellosis in the last 10 years from about 1.2 percent down to about four-tenths of a percent, which is about a 70-percent decrease in incidence during that time. This is a substantial advance. The number of animals being eliminated today is far fewer than we have found in the past. I believe that if this program works as proposed, we will gradually work toward an eradication goal. Control can ultimately lead to eradication. But I would see it being a longer term effort than what would have occurred with past levels of funding.

Mr. MCMILLAN. I might add, Mr. Chairman, that we intend to put more resources into the research side to develop an improved vaccine over that which has been in use for the last 25 to 30 years. With today's improved technology, with approaches such as genetic engineering, I think that we are in a position to place more resources into the development of that vaccine. This should aid materially in the eventual eradication of brucellosis.

Senator COCHRAN. But that may be a long way off, and you don't really have any evidence that you are close to coming up with an inexpensive, effective vaccine; do you?

Mr. MCMILLAN. While you are absolutely right, there have not been many resources directed toward the development of an improved vaccine in recent years.

Senator COCHRAN. I am not really convinced that we are going to see an effective control program with this level of commitment. I am worried you are going to see those numbers go from 0.4 percent back up to 1.2 percent. And all of the resources that have been allocated in the past and the effort that has been made will be simply erased over the next few years. But we will look at it and talk some more about it.

I have some other questions on that subject which I hope you will be able to answer for me for the record. We have other agencies here, but I also have other concerns about the APHIS budget request.

IMPORTED FIRE ANT REDUCTION

I notice, not trying to be parochial or anything, but another part of the budget that seems to have been targeted for a big cut is the fire ant program. I recognize the problem with getting approval from the Environmental Protection Agency of an inexpensive, effective and safe pest control substance to use to help combat fire ants. But this has gotten to be a problem that is of immense proportion, particularly in the southern region of the United States, and it is spreading every year. The budget you request is $2,625,000, a reduction of $3,290,000 from last year's level. That is being cut more than half from last year's level. We had a cost-share program that was underway to try to help eradicate and/or control the spread of fire ants. The only approval right now is a conditional approval for Amdro that has been manufactured. It costs about six times as much as ferriamicide, which also had a conditional approval which has been withdrawn and is suspended at this time. With the costs of the pesticide going up six times as a practical matter and your cutting the budget for the program more than half, I don't see anything but trouble for that program—a continued spread and ineffective efforts by the Federal Government to do anything about that pest, which is a national problem now. You have nine States involved who are having serious problems, and that is getting larger every day.

I don't understand that reduction. To me, that would require an increase in commitment.

Dr. **MUSSMAN**. This reduction, Mr. Chairman, reflects the recognition that the States have not been providing funds to support programs using Amdro. Amdro is available on a conditional approval, but it was not designed with eradication as its ultimate goal. Amdro does do the job on very limited areas, particularly for individual homeowners, and can control the fire ant threat in the vicinity of its use. But I think most States are holding off until they see something that promises greater sustained effectiveness.

COORDINATION WITH EPA

In this connection, we are meeting regularly with the Environmental Protection Agency to consider compounds that might be used for fire ant control and other pests and diseases as well. Specifically, in relation to the fire ant, you are aware of the question of the availability of ferriamicide and the consideration that EPA has been giving to possible approval in the future. We have scheduled jointly with the Environmental Protection Agency a symposium for the month of June. At that time we intend to review the entire fire ant effort, the biology of the ant itself, and all of the problems attendant to control or eradication. The ultimate purpose is to develop some guidance on the appropriate direction to take, and whether products such as ferriamicide could be incorporated into the group of future fire ant control tools.

Senator **Cochran**. Is this the symposium that the Director of EPA is scheduling to involve interested agencies?

Dr. **Mussman**. Yes; we are jointly sponsoring it with EPA.

Senator **Cochran**. Has that been scheduled yet?

Dr. **Mussman**. I don't know if the specific date has been set, but it will be in June. We had a meeting yesterday to plan the agenda. I think it is a matter of determining when people would be available—it is on relatively short notice—for such a symposium and setting it up when it's most convenient.

Senator **Cochran**. And Mississippi would be a good location for this symposium.

Dr. **Mussman**. With all due respect, Mr. Chairman, I think neutral ground might be better. [Laughter.]

Senator **Cochran**. We are objective.

Dr. **Mussman**. I don't question your objectivity, sir.

USE OF FUNDS FOR FIRE ANT

Senator **Cochran**. What are you going to do with $2.625 million?

Dr. **Mussman**. We will continue our longstanding survey work to assure that we know where the problem is, where it is building, and where we would make a major effort should the tools and funding become available.

Senator **Cochran**. Did you spend all the money that was appropriated for fire ants last year?

Dr. **Mussman**. In fiscal year 1981, we were unable to spend all the money. As you know, Amdro was the only control material available for use. This led to two problems. One, the producer of Amdro would not supply the cost/pricing data required by GSA for sole source contracts. Two, the States were reluctant to purchase Amdro because of its relatively high cost and questionable effectiveness. This year we will purchase Amdro only when the States come forward with matching funds. In fiscal year 1982, we anticipate spending all but a very small amount of fire ant funds. We are talking about $2.1 million for Amdro in 1982. If a number of States do elect to use larger quantities than we anticipate, we would not be in the position to fully match them.

Senator **Cochran**. What are you going to do then?

Dr. **Mussman**. We do not anticipate that they will be asking for more. I think most are waiting to see what new compounds may become available.

Senator **Cochran**. How much of the money last year was spent on survey and how much on cost share or payments to the States?

Dr. **Mussman**. May I take a moment to check. I think we have that information.

Senator **Cochran**. Surely.

Dr. **Mussman**. Mr. Ford is the Deputy Administrator for that program, Mr. Chairman. I would like to have him respond.

Mr. **Ford**. Mr. Chairman, we spent approximately $500,000 on cost sharing for the Amdro purchase last year—fiscal year 1981—and the remainder went into other fire ant activities.

Senator **Cochran**. What else did you do besides survey?

Mr. **Ford**. We carried out an extensive program to regulate the movement of products that carry the ant artifically to non-infested areas. In addition we have a methods development laboratory in Gulfport which continued to work with the Agricultural Research Service in developing new pesticides.

Senator **Cochran**. Are you planning to close that laboratory?

Mr. **Ford**. The 1983 budget would continue to fund that laboratory, as well as a regulatory and survey program.

Senator **Cochran**. What cutbacks are you going to make in 1983 to achieve this level of savings? If you spend only $450,000–$500,000 to pay the cost share and you say you eliminated what you spent on the cost-share program, what else are you going to do to achieve a savings of over $3 million?

Mr. **Ford**. The Amdro purchase in 1981 was relatively small due to the problems outlined earlier by Dr. Mussman, particularly the contractual difficulties that we had with American Cyanamid. There was actually more money available for control work, but we spent the better part of the year negotiating the Amdro contract. It was not settled until the end of the year.

INADEQUATE FEDERAL FIRE ANT EFFORT

Senator **Cochran**. Well, I have a very strong feeling of disappointment in the effort the Federal Government has made in this area. I don't know, maybe there is a good argument to be made in cutting the budget if you haven't been as successful as you have spending $5 or $6 million. Maybe the thing to do is cut it back. You are not providing moneys in any substantial quantities to help pay for the use of the pesticide. Just common sense will tell you that about the only way to get rid of the fire ant is to kill it. And you want to regulate them—tell them which roads they can take, what they can ride on from one county to the next. That is not doing any good.

Mr. **McMillan**. You are absolutely right, Mr. Chairman. But I think it is only fair to say that if you don't have the tools available to do the job for whatever reason, such as the lack of pesticide approval, then it is extremely difficult to eradicate the pest.

Senator **Cochran**. Well, are you doing anything to help with that?

Mr. **McMillan**. As Dr. Mussman has said, we are working closely with the Environmental Protection Agency. Until recently, the direction of EPA has been to take away potential fire ant control tools. We are making a conscientious effort to attempt to provide tools which will control and eventually eradicate the fire ant, while meeting the environmental requirements that are also a part of the decision process.

GYPSY MOTH

Senator **Cochran**. There are a number of questions on different programs that come within your jurisdiction which we will submit to you in writing and hope that you will be able to respond for the record, so we will have a complete dialog about various problems, such as the grasshopper infestation problem out in the Plains region and gypsy moth problems in the Northeast. We hear from friends here in the Senate that something is falling apart in an effort to deal with the gypsy moth. It is spreading, I am advised. You have $673,000 in the budget request to be used for trying to prevent the spread of that pest. What is the status of that program? Have you decided that your previous efforts have been ineffective; are you going to continue doing what you have been doing; or have you thought of something new to do?

Dr. MUSSMAN. Mr. Chairman, our program has focused almost exclusively on survey and regulatory efforts—attempting to control the movement of gypsy moth egg masses out of the generally infested area. Most of the Federal support for control in the generally infested area, as you may be aware, is provided through the Forest Service appropriation. We are not a partner in gypsy moth eradication other than working with the States to eliminate outbreaks in noninfested areas and to prevent other isolated outbreaks. The funds we are talking about for 1983 will limit our activities to developing potential control methods.

Senator COCHRAN. Last year, you spent $4.5 million on the gypsy moth program, and this year the request is $673,000. Do you think we will have a more effective program with that kind of a reduction, or will our program be more effective because we are spending so much less?

Dr. MUSSMAN. The survey and regulatory activities, Mr. Chairman, are things, we believe, the States ought to pick up a more significant share of. The States certainly have indicated an interest in this problem, and we need to work more closely with them to encourage that. Again, I would point out that the control effort in the generally infested Northeast is supported primarily by the States and the Forest Service. The Forest Service program may have some funds available for control despite our proposed reductions.

Senator COCHRAN. My problem is that at some point this year, I presume, we will have a bill that the subcommittee will recommend to the full committee, and it will go to the floor. One of my colleagues is going to offer an amendment to add money for a program that really needs some assistance from the Federal Government. This is an example of a problem we are going to have in defending and trying to explain why we need just this much money as compared to last year's level. I don't think we are going to be successful in defending this committee's bill unless we have more facts than we have been given this morning to justify these substantial reductions in just these three critical areas that we have picked out—the brucellosis program, the fire ant program and the gypsy moth program. There may be others that we haven't yet reviewed. But those are major reductions, and I have received very little in the way of explanation that I can use to convince the Senate that this is a wise thing to do or to defend it successfully on the floor of the Senate.

So, what is going to happen is we are going to get these increases added to the bill when we get to the floor, and we can't do anything about it. Then you can go downtown, and can point up here and say, "The free-spenders up there on the Hill are just busting the budget and causing inflation to go up," and all that other kind of congratulatory consideration we will hear about our efforts to hold the line.

ANIMAL WELFARE

There is a program for animal welfare. Have you cut animal welfare funding?

Dr. **Mussman**. Yes, sir, Mr. Chairman, there is a substantial reduction in the budget for animal welfare for 1983.

Senator **Cochran**. Is this mostly going to be assimilated by people being rotated into some other kind of work, or how will those cuts be absorbed in the Department?

Dr. **Mussman**. As I mentioned in answer to one of your earlier questions, we anticipate there will be a reduction in the number of personnel in the Animal and Plant Health Inspection Service. This number is as yet undetermined. What this means in carrying out the provisions of the Animal Welfare Act is that there would be some reduction in the percentage of time devoted to animal welfare and more time focused on programs for which there is additional funding or substantial funding. This will result in a reduction in the number of inspections that can be carried out and the level of enforcement which can be achieved.

Senator **Cochran**. I notice that you do project an increase in investigations next year of animal welfare complaints—from 1,000 to 1,500. How are you going to handle that with the budget reductions that are requested in that area? You propose a 70-percent cut, as I understand it, in the 1983 budget for animal welfare programs.

Dr. **Mussman**. Mr. Chairman, it is a matter of semantics. The word that needs to be identified is "complaints." We anticipate an increase in the number of complaints that we would look into; that is, where matters are brought to our attention for follow-up. This is not the number of inspections where we would take the initiative to visit a premise or person covered under the act.

JUSTIFICATIONS FOR REDUCTIONS

Senator **Cochran**. OK. Contrary to the impression that I may have left with regard to my concerns, which are very serious in the areas I have mentioned, I am convinced that the Department has done an outstanding job in the past in dealing with some of these serious problems—pests and disease problems in plants and animals. What I don't want to be put in the position of having to do, though, is trying to justify reductions that are unjustifiable. Frankly, I think that is what you are asking me to do with this request. Now, if there is more evidence of how we can deal effectively with these specific problems, I would like to have the benefit of further information, elaborating on your explanatory notes and the budget documents we have here. I just can't find anywhere in all this paper any convincing argument that would enable us to get this bill approved in the Senate with these reductions.

Mr. **McMillan**. Mr. Chairman, I can assure you that any of my colleagues here from the Animal and Plant Health Inspection Service, or me personally, would be more than happy to visit with you and the staff, as well as supply any additional information to further justify and explain the reasons for various budget requests. I realize when you look at these items in terms of the cursory view, it looks as if there is little justification. However, we would be very happy, and more than willing, to discuss these items further with you, or supply anything further for the record you feel would be helpful in justifying the budget request that we have put before you today.

Senator COCHRAN. Mr. Secretary, I know that in the past you have been very helpful to this subcommittee, and we appreciate that very, very much. In looking through some of the matters that came up last year in this area, I recall that out in Montana they came up with leafy spurge. I didn't know what that was, but leafy spurge is a problem. We put some language in the committee report to try to indicate to the department that that was a problem, and we hoped they would work with local officials and concerned landowners in an effort to develop a way to deal with it. I don't think there is any request in this year's budget for leafy spurge. If that is still a problem out there, it is going to come up again.

In the Carolinas, we have a boll weevil research project going on. You have taken all the money out for that. Well, the folks from there are going to be urging us to add money for that.

So we are going to have to deal with a lot of local and regional problems that we haven't even touched on here that relate to your overall budget request. With a $50-million reduction in your budget from last year's level, it is going to make it very difficult.

We look forward to talking with you further about these matters, and we appreciate your being here. Thank you very much for your testimony.

Mr. MCMILLAN. Thank you, Mr. Chairman.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing, but were submitted to the Animal and Plant Health Inspection Service for response subsequent to the hearing:]

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

Question: In your Explanatory Notes, you justify a number of your program reductions and eliminations by saying that states or industry can assume a greater share of program responsibility. What is the reaction of your cooperators to the FY 1983 budget in terms of their willingness and ability to assume the increased responsibility?

Answer: Cooperator reaction to our FY 1983 budget is not yet clear. We are in close consultation with States, industry, and producer groups as they review our funding proposals. As cooperators make their assessments, we expect to develop a better picture of their ability and willingness to assume increased program responsibilities.

Naturally, many cooperators will review our proposals somewhat cautiously. However, we believe the proposed shifts in responsibility are reasonable. We will work with the cooperators to assure an orderly transfer and provide needed technical assistance. Based on past experience and current trends, we expect the cooperators to accept the increased role in those areas where it is in their best interest to do so.

Question: Would you provide, for the record, for each of the programs in the previous question, the names of the States and organizations that you have contacted regarding assumptions of the programs by states and industry?

Answer: APHIS has contacted the following groups regarding the assumption of programs:

American Farm Bureau Federation
American Veterinary Medical Association
Livestock Conservation Institute
National Association of State Departments of Agriculture[1/]
National Cattleman's Association
National Milk Producers Federation
National Plant Board Advisory Council[1/]
U.S. Animal Health Association

[1/] These groups are composed of State agriculture personnel.

BRUCELLOSIS

Question: What is the likely impact of the changes proposed in the brucellosis program on interstate commerce? On foreign trade?

Answer: The impact on interstate commerce will depend upon the programs which States and the industry carry out to prevent the spread of brucellosis. The Brucellosis Technical Commission in their 1978 report commented that without a cooperative State/Federal program, uncoordinated State and individual programs would be initiated which would interfere with commerce more than the existing program. Prior to 1956, the only Federal interstate movement regulations applicable to brucellosis pertained to movements of known reactors. All other classes of animals were controlled by State regulations. Although regulations varied considerably, we assume that individual States will again enact or continue entrance requirements suitable to their own needs.

The import requirements of foreign countries are influenced by the disease situation in the exporting country and how it relates to their own livestock industry. Exporting countries which have a low incidence of a specific disease and an effective program for its control generally are subject to less stringent requirements. The impact on our foreign commerce will depend upon other countries' perceptions of the effectiveness of a voluntary vaccination program. We could experience a reduction in exports to countries that refuse to import cattle that have been vaccinated for brucellosis or those that have successfully eradicated the disease or are approaching eradication. Canada, one of our largest markets, is in the latter category.

Question: Based on historical experience, what level of vaccination has actually been carried out in states with voluntary programs? With mandatory vaccination programs?

Answer: The Brucellosis Technical Commission, in 1978, made a comparison of vaccination programs in 12 States between 1954 and 1976. During these years, voluntary vaccination programs were in effect in the higher incidence States with State and Federal funds used to encourage vaccination. The average percentage of calves vaccinated during this 23-year period was 9 percent for Texas, 18 percent for Louisiana, and 25 percent for Florida. During these same years, California and North Dakota enacted mandatory vaccination laws and achieved the highest level of brucellosis calfhood vaccination. This percentage of eligible cattle vaccinated varied from year to year but averaged 45 percent in California and 39 percent in North Dakota. Investigations into the problem of low levels of vaccination generally showed that most owners of large, well managed cattle operations vaccinated their calves, while the numerous smaller operations were not utilizing the vaccination programs available.

Question: Please enter in the record, the findings of the National Brucellosis Technical Commission with regard to the effectiveness of vaccination programs to combat brucellosis.

Answer: The Brucellosis Technical Commission stated that it was neither physically nor economically feasible to achieve the levels of vaccination which would be required to influence infection rates significantly over the Nation as a whole.

Question: Has the Animal and Plant Health Inspection Service or an other USDA agency conducted a comprehensive study of brucellosis program options? If so, what were the findings with regard to the effectiveness of the vaccination programs?

Answer: APHIS conducted a comprehensive study of brucellosis program options in 1976 and updated the findings in 1981. In 1978, the USDA Economic Research Service conducted an economic analysis of the brucellosis program which was based upon the 1976 APHIS study.

Vaccination programs have a varied effect upon the infection rate in infected herds. Herds which maintain a rigorous program of vaccination will be provided the greatest protection. In herds where rigorous programs are not maintained, serious problems will occur intermittently. Vaccination programs are designed to reduce losses in infected herds and somewhat reduce disease spread.

Question: More specifically, what were the estimated losses to producers and price impacts on consumers under such programs?

Answer: A 1981 extrapolation of the 1976 APHIS study estimated that losses in the fifth year of a voluntary vaccination only program would be $237.1 million in beef cattle and $171.5 million in dairy cattle for a total of $408.6 million.

The 1978 study by USDA's Economic Research Service estimated that over a 20-year period, beef and dairy prices would be higher under a voluntary vaccination program compared to a basic control program or an eradication program. However, we cannot predict with any accuracy whether a voluntary vaccination program will have a significant adverse impact on beef and dairy consumers. These impacts will depend on the level of State and industry participation in a voluntary vaccination program.

Question: If the brucellosis program is nearly phased out, what will be the incidence of bovine brucellosis program in five years? In 10 years? What will be the incidence of brucellosis in man in five years and in 10 years?

Answer: The exact incidence of brucellosis in 5 or 10 years would be hard to predict since it depends on the level of State and industry participation in the program. We plan to continue to monitor the program and modify it as necessary.

As bovine brucellosis increases, there could be a corresponding increase in human brucellosis. However, it should not increase to preprogram levels since fewer people drink raw milk and fewer nondairy farm families keep a milk cow for household use. Human brucellosis is now treatable with antibiotics.

Question: Will the state governments be willing or able to pick up the brucellosis eradication program?

Answer: We hope that States and local groups will be willing to participate more actively in controlling the spread of this disease.

Question: If no, can the livestock industry bear additional veterinary costs under current market conditions?

Answer: The best indications we have with respect to this question are the comments we have received so far from the major industry organizations. Generally, these groups express a willingness to consider reasonable cuts in the Federal program as long as there is industry input as to where the cuts should be made. They oppose abandoning the goal of brucellosis eradication. The National Cattleman's Association supports the President's FY 1983 budget proposals; however, they insist that a national program should be sustained and that eradication of brucellosis should be the ultimate goal.

Question: Although the brucellosis eradication program is relatively expensive today, how much would it cost if a decision were made in 5 or 10 years to start an eradication program again?

Answer: We are unable to predict the cost of restarting an eradication program again in 5 to 10 years because this depends upon the types of programs the free and low-incidence States maintain to prevent reintroduction of brucellosis; the level of vaccination carried out by industry over the next 5 to 10 years; and the type of program initiated at that time.

Question: What work is being done in USDA to develop an effective, inexpensive vaccine or drug to prevent or cure this disease?

Answer: Work is presently being supported by USDA in the following areas at 15 universities and at various USDA facilities.

- Evaluation of different routes for administration of vaccines.

- Duration of immunity from reduced dosage Strain 19 vaccine.

- Fractionation of Brucella organism with characterization of the various antigenic fractions, incorporation of selected fractions into vaccine preparations and tests in laboratory and large animals.

- Use of immunopotentiating agents with Strain 19 vaccine to enhance the immune response.

- Evaluation of killed vaccines with various adjuvants as follows: 45/20 in water and oil and in activated charcoal; H38 oil and H_2O; and homologous B suis type IV (killed) in adjuvant for reindeer. All have generally been found to be less effective than Strain 19 so far.

- Antibiotic therapy using tetracycline (long lasting). Treatment of human infections is effective, but the cost is prohibitive in livestock.

- Antibiotic therapy combining antibiotics with liposome to improve transport of antibiotics to interior of affected cells.

- Investigation of cell extracts from infected or immunized animals to transfer immune response activity to unvaccinated recipients. This approach has some promise but is very expensive at present.

Question: Is this a feasible alternative to an eradication program (regardless of who runs it)?

Answer: With existing technology, a vaccination-only program will not achieve brucellosis eradication. Vaccination programs are designed to reduce losses in infected herds and somewhat reduce disease spread. The Brucellosis Technical Commission did not consider vaccination-only a viable alternative to an eradication program. They stated that it was neither physically nor economically feasible to achieve the levels of vaccination which would be required to influence infection rates significantly over the nation as a whole. Although some of the research work appears encouraging, none has been perfected at this time. If perfected, some of the procedures may be feasible as an alternative to eradication.

ANIMAL WELFARE

Question: Do you realistically expect the states and industry to effectively maintain compliance with animal welfare laws under the reduced funding you are proposing for the program?

Answer: We do not expect that the States and industry will be able to maintain the current level of compliance with the Animal Welfare Act. Within available resources, the Department plans to provide guidance to volunteer groups developing inspection programs. Inspections carried out by State and industry groups will have to be with the consent of establishment owners since the Animal Welfare Act authorizes only USDA employees to conduct inspection and enforcement functions. We will assess the effectiveness of the groups' inspection program through public complaints and resulting investigations. The Department will concentrate its efforts on complaint investigation and prosecution.

Question: Dr. Mussman, if the Animal and Plant Health Inspection Service fiscal year 1983 budget for Animal Welfare Act programs is cut by 70 percent, as has been proposed, which elements of the program will be, in essence, eliminated? What will be retained?

Answer: The FY 1983 budget eliminates all routine inspections of licensees and registrants. APHIS will maintain a smaller headquarters staff and field work force for the animal welfare program. Although the Animal Welfare Act authorizes only USDA employees to perform unannounced inspections, we will encourage volunteer groups to conduct inspections in FY 1983. Most of our effort will focus on complaint investigation and prosecution efforts.

Question: What reduction in man-hours for animal welfare do you anticipate?

Answer: Based on a total of 2,080 hours per staff-year, we anticipate a reduction of 189,280 staff-hours or 91 staff-years for animal welfare in FY 1983.

Question: How many Animal and Plant Health Inspection Service employees who currently work on animal welfare will be RIFed?

Answer: At this time, we do not know how many, if any, RIF's will be required. If necessary, we hope that most people could be placed in other APHIS positions.

Question: How many people does the Animal and Plant Health Inspection Service have assigned to animal welfare activities now, and how many would there be if the budget proposal is adopted?

Answer: We currently have 137 staff years for animal welfare activities, including all support and administrative personnel. If the budget proposal is adopted, the number of staff years would be reduced to 46.

Question: The budget documents indicate that the Animal and Plant Health Inspection Service will increase its investigations of animal welfare complaints from 1,000 in fiscal 1982 to 1,500 in fiscal 1983. How is this possible with the proposed budget reductions?

Answer: The scope or our animal welfare activity will shift almost exclusively to complaint investigation and prosecution. Under our proposal, volunteer groups within each State will perform inspections on participating licensees and registrants. The groups will report problem areas or specific complaints to the Department for appropriate action.

With the virtual elimination of costs associated with routine Federal inspections being phased out, we will be able to concentrate our efforts on the increased number of projected complaint investigations.

Question: What percentage of the dealers, handlers, and researchers registered with the Animal and Plant Health Inspection Service under the animal welfare act are visited by an inspector in a year?

Answer: Generally, all licensees and registrants are inspected at least once per year. However, occasionally a licensee or registrant may be overlooked. In FY 1980, the average inspection rate was approximately 2.8 times per year per facility. In FY 1981, the average inspection rate was 2.3 times per year. We estimate that the inspection rate for FY 1982 will be approximately 2 times per year.

Question: Last fall, the inhumane treatment of research animals at a Silver Spring research facility received a lot of publicity. There were reports that the Animal and Plant Health Inspection Service had few, if any, investigators qualified to review laboratory animal facilities. What is the status of personnel with this background today?

Answer: APHIS currently has an adequate number of educated and trained personnel to satisfactorily carry out the enforcement of the Animal Welfare Act. All research facilities are inspected by graduate veterinarians who have received orientation and training in regard to the Animal Welfare Act and its enforcement. APHIS has recently strengthened its training procedures and has initiated a program of rotation of inspectors and station program reviews in an effort to improve the uniformity and quality of inspections.

Question: What will happen if the budget cuts are enacted?

Answer: There will be fewer Federal inspections of any licensee's or registrant's premises. We will give top program priority to the investigation of public complaints and the documentation of alleged violations. APHIS will investigate legitimate complaints and will document alleged violations for possible prosecution.

SCREWWORM

Question: In your statement, you say that you expect to establish the screwworm barrier at the Isthmus of Tehuantepec by the end of fiscal year 1984. You also say that Central American countries might be interested in pushing the barrier further south. What are some of the benefits and obstacles that might be encountered in such a program?

Answer: One benefit of pushing the screwworm barrier south through Central America and Panama would be a reduction of land space requiring constant treatment with sterile flies to prevent the northern migration of wild flies. The Isthmus of Tehuantepec in southern Mexico, the current projected barrier location, is approximately 135 miles wide; whereas Panama, near the Darien Gap, is approximately 60 miles wide. Therefore, the cost of maintaining a barrier would be reduced. Another benefit is that the additional distance from the United States would greatly reduce the danger of wild flies reentering the United States. Additionally, the affected Central American countries and the remaining areas of Mexico would be freed of screwworm, thereby improving their livestock production.

Presently, the two principal obstacles are the political unrest in Central America and funding for the program. The execution of the program would require close cooperation among the countries of Central America, including allowing overflights of the countries by aircraft dispersing sterile flies and fly population control products, known as SWASS. This may be difficult given the political unrest in this area. In addition, the Central American countries could probably not fund this project without outside financial assistance.

The Inter-American Institute for Cooperation on Agriculture (IICA) is coordinating the feasibility and financial studies of extending the program through Central America and Panama.

CATTLE SCABIES

Question: Will states and industry be able to use toxaphene under the same label exemptions as is currently used in the cooperative State/Federal cattle scabies program?

Answer: This exemption only applies to the official State/Federal eradication program. APHIS is responsible for toxaphene use under the terms of the exemption. Since APHIS will no longer be involved in the scabies program, individual States will have to apply to the Environmental Protection Agency for label exemptions.

GRASSHOPPER INFESTATIONS

Question: Since grasshopper infestations are so unpredictable, will the Animal and Plant Health Inspection Service be able to react quickly to major outbreaks?

Answer: Yes, APHIS has experienced personnel in the grasshopper region, and if needed, can detail additional trained personnel from other areas to respond to a major outbreak. The APHIS contingency fund, reprogramming, and emergency transfer authority are possibilities to cover program costs if Federal involvement becomes necessary.

Question: Has the Animal and Plant Health Inspection Service considered any alternate sources of funding--besides shifting total responsibility for costs to the states and individual ranchers--to control grasshopper outbreaks?

Answer: We have identified three possible funding alternatives for grasshopper control, should outbreaks require Federal involvement.

One alternative is the APHIS contingency fund. The contingency fund has the advantage of quick availability for an initial delimiting survey, but it is inadequate to cover the total costs of a large control program. A second alternative is the reprogramming of funds from other APHIS programs. However, reprogramming is subject to spending patterns in the other programs and both Department and congressional approval. This could delay grasshopper control efforts--especially the initial delimiting survey required before actual suppression treatments can begin. The third alternative is the Secretary's emergency transfer authority. While this alternative would be effective in handling emergency control program costs, it would not provide funds for survey efforts on which control programs would be based.

Given each alternative's advantages and limitations, we would need to develop a proper mix of funding sources to initiate APHIS efforts in grasshopper control. We are continuing our consideration of other alternatives, such as an advance emergency declaration based on State and rancher surveys and predictive models.

GYPSY MOTH

Question: With the dramatic recent increase in gypsy moth population in the northeast, how successful can you or the states expect to be in preventing man-caused spread of the pest to other areas of the country?

Answer: Given the available technology and regulatory authority, it is unlikely that APHIS or the States can be very successful in preventing man-caused or artificial gypsy moth spread. As infestations become more intense, the chance of artificial spread greatly increases. Without new regulatory authority, we cannot do much to prevent it.

Question: What is the major cause of such spread, and what are you doing about it?

Answer: The major cause of man-caused spread is the movement of outdoor household goods. People moving from the generally infested area often transport picnic tables, lawn furniture, and similar items which can carry egg masses and start new infestations. We have made a major effort to develop a system to address this problem. Currently, we urge people moving from high-risk areas to notify a State or Federal plant protection office so they may assess the potential threat. We developed a proposal to set up a formal regulatory procedure to monitor such moves, but the proposal was rejected as too burdensome on the private sector. Therefore, there is little we can do other than urge movers to check for gypsy moth evidence when moving their goods while we examine other potential regulatory procedures.

Question: In the gypsy moth program, what will the $673,000 be used for?

Answer: We will use the $673,000 to provide technical advice to those States with gypsy moth programs and to continue methods development work.

Question: Was the Animal and Plant Health Inspection Service's gypsy moth program totally ineffective? If not, how much more economic damage will the gypsy moth do if the budget is cut from $4.5 million to $673,000?

Answer: The present program is not totally ineffective but we have continued to lose ground in the gypsy moth fight. It is impossible to determine precisely how much more economic damage will occur because of reduced APHIS activity, although it is reasonable to expect the number and geographic distribution of isolated infestations will increase more quickly. If all susceptible areas were infected, losses to homeowners and the recreation and forest products industries could exceed $1 billion annually. We have determined that given the magnitude of the problem, the effort we are now capable of mounting is not worth the substantial investment involved. Without new tools and authority, our present program will only delay rather than prevent increased economic damage.

Question: How do the states, particularly those on the leading edge of the infestation, feel about the proposed budget cuts?

Answer: State forestry and agriculture officials view the proposed reduction with some trepidation. However, though the APHIS role will be reduced, USDA will continue the gypsy moth battle through the Forest Service and the Agricultural Research Service. Until the needed tools and authorities are available, the APHIS role in the overall Federal gypsy moth program in assisting the States will be limited. We share the States' concern about gypsy moth, but believe they will understand our reduced role in light of the need for a new approach by APHIS.

BOLL WEEVIL

Question: Now that USDA and the National Academy of Sciences have evaluated several possible cotton insect management programs, what is the next step in eradicating or controlling the boll weevil?

Answer: We have identified several possible cotton insect management approaches, each with advantages and disadvantages for various geographic locations. The industry must determine which approach is best under different sets of circumstances. As these determinations are made, we can work with the States and producers in implementing a program.

Question: Is the Animal and Plant Health Inspection Service prepared to support industry initiatives in this area?

Answer: Yes, APHIS is prepared to work closely with cotton producers in implementing the most effective cotton insect program in any geographic area. We strongly encourage industry initiatives in this area and stand ready to offer our skill and assistance.

WITCHWEED

Question: Please enter, for the record, the findings of the recent study on the potential impact of witchweed in the Corn Belt.

Answer: A recent ARS study focused on the ecological range of witchweed rather than the likelihood of spread or potential economic impact in the Corn Belt. The study results indicate that growing season soil and air temperatures throughout the central Corn Belt, as well as in the sorghum- and sugarcane-producing areas, fall within witchweed's range to germinate, develop, emerge, flower, and reproduce. Witchweed seed also can survive winter soil freezing conditions typical of the Corn Belt and subsequently germinate and parasitize corn plants. The study concluded that neither winter soil temperatures nor growing season air and soil temperatures will alone prevent the spread of witchweed. The report recommended continued and expanded efforts to contain and eradicate witchweed. We would hope that the two States involved in the program will continue to actively pursue the effort.

Question: What is your rationale for expecting the states and industry to effectively prevent the spread of the witchweed to major corn-producing areas?

Answer: Witchweed is confined to a limited area in the coastal plain of North Carolina and South Carolina. Working with those States and industry, we have prevented the spread of witchweed and actually eradicated it from several counties. Eradication technology is proven and available to States and industry. Given the limited size of the infested area and the availablity of eradication technology and tools, we believe that the involved States and industry can take the lead in witchweed eradication. In addition, noninfested States can take regulatory action as they deem necessary. Their efforts should be sufficient to prevent the spread of witchweed to corn-producing areas.

APHIS STAFF-YEARS

Question: In your statement, you say that emergency reaction capability is an absolutely necessary component of the Animal and Plant Health Inspection Service basic organization and that you are delineating your requirements on a region-by-region basis. Doesn't your fiscal year 1983 budget leave agriculture especially vulnerable to major outbreaks in certain regions on the country?

Answer: The proposed reductions have brought into focus certain problems--such as vulnerability of certain regions to pest and disease outbreaks--inherent in a project-by-project approach to budgeting.

Our proposed reductions, primarily in the gypsy moth, golden nematode, grasshopper, and scabies programs, could reduce total APHIS employment in the Northeastern and North Central States. Some Plant Protection and Quarantine offices in those areas may be eliminated. In addition, subsequent analysis of the proposed reduction in the brucellosis program has shown that additional animal health staff-years may be lost. With a limited APHIS presence in those regions, we are examining our ability to maintain an effective surveillance and detection system or a capability to react quickly to pest and disease outbreaks.

Because our mission is to protect the entire U.S. agriculture industry, we have begun the process of reviewing each of our functions and program areas to define and justify the essential activities that they contain. We will follow this with specific determinations of resource requirements and geographic location needs. Our objective is to identify the basic organization--and a corresponding minimum level of resources--below which we would not be able to fulfill our mission. The basic organization will place priority on key activities necessary to fulfill the APHIS mission. It will also be flexible, permitting inclusion of selected programs to continue our cooperative relationships.

Question: Please enter, for the record, the geographic distribution of the Animal and Plant Health Inspection Service staff-years for animal and plant protection activities under the fiscal year 1983 budget.

Answer: The following is a listing of staff-years by State, assuming Agency February 1982 employment as adjusted by FY 1983 budgetary changes. Employment in APHIS is not static; that is, it changes from year to year due to the variation of required effort dictated by the nature of the programs conducted by this Agency. This table assumes that no present employees will be shifted to other States. In fact, many times it is necessary to transfer employees to other States for emergency animal and plant pest and disease needs. Such emergencies cannot be foreseen at this time.

1983 Staff Years

State	Staff Years
Alabama	67
Alaska	7
Arizona	113
Arkansas	79
California	259
Colorado	50
Connecticut	20
Delaware	11
District of Columbia	88
Florida	300
Georgia	78
Guam	5
Hawaii	199
Idaho	31
Illinois	65
Indiana	33
Iowa	306
Kansas	50
Kentucky	66
Louisiana	106
Maine	3
Maryland	566
Massachusetts	94
Michigan	76

Minnesota	128
Mississippi	142
Missouri	60
Montana	16
Nebraska	37
Nevada	41
New Hampshire	4
New Jersey	75
New Mexico	27
New York	272
North Carolina	34
North Dakota	18
Ohio	24
Oklahoma	74
Oregon	22
Pennsylvania	77
Puerto Rico	202
Rhode Island	6
South Carolina	39
South Dakota	24
Tennessee	74
Texas	589
Utah	10
Vermont	7
Virginia	45
Virgin Islands	9
Washington	50
West Virginia	14
Wisconsin	29
Wyoming	10
Mexico	68
Other Foreign	26
TOTAL	4,925

PROGRAM PRIORITIES

Question: Are the resources to be spent on pest programs related to the potential economic damage of those pests? For example, the screwworm and brucellosis programs would receive 23 percent and 26 percent, respectively, of the Animal and Plant Health Inspection Service's 1983 budget, while the gypsy moth and pink bollworm programs combined would only receive about 0.5 percent of the funds. What is your criteria for determining which pest programs you will fund? And then, how do you determine at what level these programs will be funded?

Answer: Potential economic damage is important in determining program funding levels, but it is not the only consideration. A major consideration is the appropriateness of Federal involvement. Some pest and disease problems can be handled by States, industry, and individual farmers. This budget represents a greater effort to review and identify these areas and correspondingly reduce our involvement. For example, we have determined that the States and growers should be able to handle the bulk of pink bollworm activities, thus allowing us to reduce our funding request in that area. The screwworm program, on the other hand, is an area which requires continued Federal involvement because of its international aspects.

Another important consideration is the availablity of adequate technology for an effective program. Without the proper tools, we cannot do the job. In our judgment, it is not logical to continue funding programs for which there are no control tools available to us. This consideration led us to propose the gypsy moth program funding reduction.

Another important consideration is the cost-effectiveness of our programs. We do not want the cure to be more costly than the disease. We weigh the benefits of the program--that is, the potential damage that we avoid by taking the action--against its costs and probability of success. In most situations we must consider the long-term consequences of pest or disease spread and program costs.

Once Federal involvement is determined appropriate, the level of funding is based on similar considerations. First we determine how much of the overall program effort States, industry, and individual farmers can accomplish. It is our policy to identify any clear beneficiaries of our efforts and assess them appropriately. Another important consideration is assuring that programs are efficient. Our funding requests are the minimum levels necessary for effective programs.

We also must consider the Administration's and Department's overall priorities. While we concentrate on animal and plant health problems, we must also recognize the effect of Federal spending on the economy and limit our efforts to only the most urgent.

Question: What is the potential economic damage of each of these pests?

Answer: The estimated potential loss due to those diseases and pests would depend on the extent of State involvement, as well as the number of years of the projection. Obviously, given sufficient time and lack of activity by farmers and States, the costs could be quite high. However, we believe those impacted and local governments will take action to avoid these costs.

FRUIT FLY REARING FACILITY

Question: What is the status of the Medfly rearing facility in Hawaii?

Answer: We are now looking at several sites for the facility and expect to select one soon. The site we had hoped to use, Coast Guard property on Sand Island, may not be available pending negotiations between the State of Hawaii and GSA. Once a site is selected, we will let an architectural and engineering contract to complete final planning. Construction should begin in about 1 year.

California has made $500,000 available to go with our appropriation of $3.8 million for construction of the facility. Rather than providing a site, we are proposing that Hawaii cover the first $500,000 of costs when we initiate production of sterile flies for use in their State. Based on our correspondence with the House and Senate Appropriations Committees, this provision would fulfill matching requirements the Committees directed last year.

USER FEES/AGRICULTURAL QUARANTINE INSPECTION

Question: You indicated in your Explanatory Notes that you are proposing user fees for certifying plants or plant products for export. What is the amount you will recover from these fees?

Answer: We expect to recover $1.8 million from the fees.

Question Will this not take regulatory or legislative action? Are you proposing such action?

Answer: Yes, we will need new legislative authority to accept full cost reimbursement for certifying plants and plant products for export. We intend to submit the appropriate legislation soon.

Question: In your statement you indicated the total new user charges for 1983 is $3.6 million and the budget has been reduced accordingly. Please explain and identify.

Answer: In anticipation of the imposition of user fees for certain APHIS import and export activities, we correspondingly decreased our appropriated fund request. The $3.6 million is composed of three components: $1.8 million in fees associated with issuing phytosanitary certificates for exporting plants and plant products; $1.4 million in animal and animal products export certification; and $400,000 for full cost reimbursement at our import animal quarantine stations. In the latter case, current user fees cover only feed, care, and attendants. USDA has proposed legislation which would allow APHIS to accept full cost reimbursement for these activities. These new financing proposals should not affect the level of animal imports or plant exports.

FISCAL YEAR 1983 BUDGET

Question: You indicated in your statement that the proposed budget for fiscal year 1983 is $49 million below the fiscal year 1982 appropriation. Obviously, significant program changes have been proposed. What evidence do you know that local governments, industry or individuals will or will not be able to pick up the responsibility for program financing?

Answer: We have consulted with a number of our cooperators on programs proposed for either reduction or elimination. They are now in the process of assessing their own financial situations to determine what can or cannot be done given the proposed level of Federal funding. As they complete their reviews, we expect to have a clearer picture of their ability and willingness to assume increased program responsibilities.

Some cooperators will probably view our proposals with skepticism, but we believe that the proposed transfers are realistic both in terms of funding and program responsibilities. We are, and will continue to be, in close contact with States, industry, and producer groups to assure an orderly shift of functions and provide technical assistance when needed.

Question: What is the likely impact of these proposed budget cuts on your personnel levels? Will some employees be RIFed? Please explain.

Answer: The proposed budget cuts will cause a reduction in APHIS personnel levels. Estimates of a potential reduction in force at this time are tentative. This is due to the unique nature of APHIS staffing--individuals often do not work exclusively on one program. APHIS will attempt to fill all vacancies in continuing programs from the personnel now working in those affected by the reduction. However, until a reduction is initiated, there is no way to determine who will or will not accept reassignment in lieu of separation. Within these limits, APHIS estimates that between 250 and 500 employees would actually lose their jobs.

Question: Please provide a table showing agency request, departmental allowance and budget request for each program account.

Answer: We will provide the table for the record. (The table appears on the following page.)

Question: For each program or project you are proposing to eliminate or cut, please provide for the record a current status report. Also, indicate why no funds or less funds were requested.

Answer: We will be pleased to provide that for the record.

Animal Welfare

Inspection of regulated dealers, research facilities, exhibitors, and carriers is continuing in FY 1982. The formal system of deadlines and accountability checks for monitoring enforcement efforts on animal welfare standards, instituted during FY 1980, was further refined in FY 1981. As a result, alleged violation cases continued to be processed at an improved pace. A total of 283 cases were received, an increase of 21 percent over FY 1980. Twenty prosecutions resulted in the suspension of 7 dealers' licenses and 13 cease and desist orders. A total of 6 fines were assessed, ranging from $100 to $1,000 each. Fifteen other cease and desist orders were issued against dealers, exhibitors, and research facilities, and 22 complaints were issued by the Office of General Counsel compared to 13 in FY 1980.

We propose a reduction to reflect a shift in primary enforcement responsibility for animal welfare to the States, industry groups, humane societies, and individuals. APHIS will continue efforts in complaint investigations and prosecution of alleged violators.

Brucellosis Eradication

APHIS made continued progress in the eradication program during 1981, as reflected by a reduction in the Market Cattle Identification (MCI) reactor rate from 0.47 in 1980 to 0.42 percent in 1981. The number of infected herds increased from 12,842 in 1980 to 13,290 in 1981. The number of infected dairy herds found as a result of milk ring tests rose from 317 in 1980 to 355 in 1981. The increase in these latter two indicators was the result of improvement of some program procedures to find infected herds in high-incidence States, a positive sign that the program is improving in these States. The number of Certified Free States increased by 1 to 32 in 1981.

APHIS FY 1983 Budget Request
($000)

	Official APHIS Estimate*	Dept. Allowance	OMB Allowance
Plant Disease and Pest Control:			
Plant Protection:			
Biocontrol	$ 3,540	$ 3,540	$ 3,540
Boll Weevil--High Plains	--	1,029	1,029
Golden nematode	905	905	--
Gypsy moth	4,273	4,273	673
Imported fire ant	--	--	2,625
Japanese beetle	--	121	121
Mediterranean fruit fly	8,275	8,275	8,275
Mexican fruit fly	865	1,473	1,473
Pest detection	3,916	3,916	3,916
Pink bollworm	--	591	591
Witchweed	4,000	4,000	--
Total, Plant protection	25,774	28,123	22,243
Agricultural quarantine inspection	47,136	45,336	45,336
Total, Plant disease and pest control	72,910	73,459	67,579
Animal disease and pest control:			
Animal health:			
Animal welfare	2,609	5,609	1,509
Brucellosis eradication	82,662	82,662	59,896
Cattle ticks	3,730	3,730	3,730
Emergency programs	3,455	3,455	3,455
Foot-and-mouth disease (DG)	1,090	1,090	2,205
Horse protection	148	348	148
Import-export inspection	6,525	4,725	4,725
Interstate inspection of livestock	5,199	5,199	5,199
Miscellaneous animal diseases and pests	961	961	961
National poultry improvement plan	209	209	209
Poultry diseases	762	762	762
Pseudorabies	--	--	266
Screwworm	45,312	52,740	52,740
Swine health protection	3,090	3,090	3,090
Tuberculosis eradication	4,014	4,014	4,014
Veterinary diagnostics	6,328	6,328	6,328
Total, Animal health	166,094	174,922	149,237
Veterinary biologics	8,217	8,217	8,217
Total, Animal disease and pest control	174,311	183,139	157,454
Contingency Fund	5,000	5,000	2,500
Construction	2,386	2,386	2,386
Trust Funds	(2,378)	(2,378)	(2,878)
Total, APHIS	$254,607	$263,984	$229,919

*Assistant Secretary approved this estimate for review by the Secretary.

Five of the 10 States with high-incidence rates have intensified their programs during the past 5 years. They are Tennessee, Georgia, Alabama, Kentucky, and Arkansas. The area testing portion of the program in these five States has been completed. The disease incidence rates as measured by the market cattle reactor rates and the number of infected herds has plateaued or slightly risen in Tennessee, Georgia, and Alabama. These States are still experiencing outbreaks caused by the importation of exposed cattle. The number of infected herds in Arkansas and Kentucky is still declining. Further progress in all accelerated States will depend on continued simultaneous progress in other high-incidence States which have not yet accelerated their programs completely.

Additional resources were made available to Florida, Louisiana, Mississippi, Oklahoma, and Texas in 1981. Although these five remaining high-incidence States have not fully accelerated their programs, the improvements that have been made appear to be achieving results. As efforts are intensified to locate infected herds, the number of infected herds rises for 2 or 3 years, but there is a corresponding decrease in the MCI reactor rate.

A major effort has been made to increase the number of calves vaccinated with Strain 19 vaccine by utilizing increased State and Federal funds to support fee-basis vaccination. These efforts resulted in an increase from 5.8 million calves vaccinated in FY 1980 to approximately 6.9 million in FY 1981.

Forty-eight States were actively engaged in the swine brucellosis program at the end of FY 1981. The number of sows and boars tested under the slaughter surveillance program decreased from 4.3 million in FY 1980 to 3.1 million in FY 1981. The percentage of eligible swine blood sampled at packing plants under the MST program also decreased, and currently 53 percent of the sows and boars slaughterd nationally are being tested compared to 74 percent a year earlier. This decrease is due in part to the use of new procedures in some slaughter plants, which caused identification problems. The MST reactor rate increased from 0.049 in FY 1980 to 0.062 in FY 1981 as previously unsampled herds and areas were brought under slaughter surveillance. Three States--California, North Dakota, and Rhode Island--qualified for Validation status in FY 1981; and, at the end of the year, 18 States, Puerto Rico, and the Virgin Islands held Validated Brucellosis-Free Area status.

Our budget proposes a reduction in funding because at current disease incidence of 0.42 percent, down from 1.2 percent in 1960, producers and industry can and should take a greater role in preventing brucellosis infection in their herds.

Cattle Ticks

During FY 1981, approximately 55,000 surveillance patrols were carried out in the Texas quarantine zone along the Rio Grande River. There were 86 apprehensions of livestock entering from Mexico, including Mexican cattle and U.S. strays. There were no losses from bovine piroplasmosis during the year. At the end of FY 1981, 10 premises were under quarantine outside the quarantine zone along the Rio Grande River compared to 11 at the end of FY 1980.

In 1978, inspectors discovered cattle fever ticks in Puerto Rico for the first time since 1952. A Federal quarantine was established, and the Department initiated efforts to locate tick infestations and eradicate them. To date, the program has prevented the ticks from spreading to the U.S. mainland. In FY 1981, 1,072 premises were freed of ticks up from 128 in FY 1980. During FY 1982, the Department will continue eradication efforts in Puerto Rico to reduce the number of infested areas. The Commonwealth should be in a good position to assume responsibility for the program by FY 1983, since the Department has already established a program, demonstrated effective eradication techniques, and eradicated ticks from many premises. The proposed FY 1983 decrease in APHIS funding reflects this shift in responsibility.

Emergency Programs

In FY 1981, APHIS trained and assigned selected employees to five Regional Emergency Animal Disease Eradication Organizations (READEO's). These groups, prepared to respond rapidly to emergency disease outbreaks, were activated to combat the major exotic Newcastle disease outbreak diagnosed on September 10, 1980. This was the first time all five READEO's were in operation at the same time and provided an excellent opportunity to evaluate potential problems which might result from an outbreak spreading to States in all regions.

Major training for field personnel consisted of one course on military support for emergency animal disease programs and one seminar for the READEO cleaning and disinfection personnel. Also, foreign animal disease seminars were held at veterinary colleges in Alabama and Illinois.

Outbreaks of velogenic viscerotropic Newcastle disease (VVND) continued to plague the pet bird industry. Thirty-seven cases (34 in California; 1 each in Arizona, Nevada, and Texas) were diagnosed in FY 1981. Eradication costs for the FY 1981 outbreaks were $360,000, and carryover costs from the FY 1980 outbreak totaled approximately $1,054,000.

The Emergency Programs Information Center Data Bank added a total of 4,802 articles on animal diseases exotic to the United States. This computerized repository of worldwide information on foreign animal and poultry diseases now has over 42,000 articles cross indexed and ready for immediate use by disease control decision-makers in the United States or other countries. Technical assistance and information provided to other countries continues to increase.

Emergency Programs continues to station a veterinary medical officer in Rome, Italy, to collect information on animal diseases exotic to the United States from Europe, Africa, and the Near East. Rapid receipt of such information assists APHIS in formulating strategies and measures to prevent the introduction of such diseases into the United States. This individual also serves as a facilitator for import and export of animals and animal byproducts through personal contacts with animal health officials and onsite visits to packing plants, quarantine facilities, and ports of embarkation.

During FY 1981, APHIS maintained and supported exotic animal disease programs with Mexico, Panama, Guatemala, Honduras, and Costa Rica to prevent the spread of foot-and-mouth disease (FMD) and other exotic diseases into those countries and the United States. These programs provide for quick response to suspected outbreaks of exotic animal diseases foreign to U.S. livestock. This involves prompt reporting and investigation, especially of vesicular disease outbreaks suspicious of being FMD, and rapid diagnosis of such cases. In the event of a disease outbreak, a cooperative effort would be initiated, aimed at rapid diagnosis, control, and eradication. Constant training and educational and publicity programs for cooperating personnel and livestock owners are important tools in achieving the objectives. APHIS also conducts a cooperative program with the government of Colombia. The program is designed to prevent the spread of FMD from Colombia into Panama and the other free countries to the north as the Pan American Highway is being built and after it is opened.

APHIS continued to provide technical assistance for African swine fever (ASF) eradication in the Dominican Republic under an agency support agreement with funding by the United States Agency for International Development. The results of sentinel testing with pigs imported from the United States and the survey of wild swine and search for ticks indicate the disease has been eliminated. No evidence of ASF or hog cholera has been found in the 1,300 sentinel pigs or their progeny. The presence of ASF in Haiti constitutes a continuing threat to swine repopulation in the Dominican Republic.

Working through IICA, the United States, Mexico, and Canada are cooperating to assist Haiti to eradicate ASF. All the participating countries have approved the IICA plans for an eradication program.

The proposed FY 1983 decrease is due to decisions to not purchase additional FMD antigen in FY 1983 and to reduce the FY 1982 level of training. During FY 1982, APHIS will purchase enough FMD antigen to build the present stockpile to an adequate level. The antigen purchased through FY 1982 will have a shelf life of approximately 5 years. As the antigen loses potency, additional antigen will be needed. No purchase is necessary in FY 1983, but stockpile maintenance and potency testing are still required. Training conducted in FY 1982 for the Regional Emergency Animal Disease Information System (READI) will not be repeated in FY 1983.

Horse Protection

We continue to assist the six horse industry organizations to improve their Designated Qualified Person (DQP) programs. The excellent self-regulation at the large shows in August and September 1981 indicates that the industry can do an effective job. Prosecution efforts also continued during FY 1981. Nine horse owners were disqualified (two appealed and are waiting for the Judicial Officer's decision); five trainer/exhibitors have been disqualified. Two trainers were criminally prosecuted; each pled guilty to the charges. Imposition of a jail sentence for one was suspended to 3 years probation and imposition of a 60-day jail sentence for the other was suspended to 1 year probation. Their total combined fines are $5,000. Fines assessed through administrative prosecution ranged from $300 to $4,500.

The combined Federal/State efforts over the past 2 to 3 years have started a change of attitude within the industry concerning the soring of horses. Responsible segments of the industry have become increasingly active in attempts to reduce soring. Due to the improved performance of DQP personnel, Federal involvement in the elimination of horse soring can be decreased.

Import/Export

All livestock, live poultry, and hatching eggs offered for exportation from the United States were inspected for evidence of communicable disease, proper health certification to meet regulatory requirements, and the Veterinary Services health agreements with the importing country.

A regulation change to allow for the importation of mares from countries where CEM exists was published October 16, 1981. This allows importation of mares treated and tested negative in the country of origin. APHIS has also adopted a new policy which requires a negative bluetongue test for all ruminants offered for import except for those from Canada, Mexico, or a USDA recognized bluetongue free country. A proposed regulation change, if adopted, would amend the requirements for importation of horses from Canada. This regulation change would allow entry when horses test negative for equine infectious anemia (EIA) on samples drawn within 180 days of the date that the horse is offered for importation.

In an effort to encourage use of the Harry S Truman Animal Import Center (HSTAIC), APHIS has relaxed some requirements and published regulations for exclusive use by cooperators. APHIS continues to seek solutions to the problem of effectively utilizing HSTAIC.

APHIS established smuggled bird facilities at Mission, Texas, and San Ysidro, California, for quarantining and auctioning seized birds. During FY 1981, 380 lots, totaling 1,870, birds, were quarantined and auctioned to the public.

On June 11, 1981, a final rule became effective providing additional grounds for withdrawing approval of commercial bird quarantine stations. The rule allows the Department to terminate a facility's approval when owners exhibit unfitness to engage in the business. APHIS has withdrawn three facilities' approval under the new rule.

The proposed FY 1983 decrease is the result of a Department review to identify programs which should be supported by user fees. Since exporters and importers appear to be direct beneficiaries of the import-export services, they should bear the costs of such services. We plan to begin charging fees for these services in FY 1983.

Scabies Eradication

During FY 1981, the scabies program continued to detect, report, and treat outbreaks. There were 146 outbreaks in 14 States, a decrease from 262 outbreaks in FY 1980. Dryness in the High Plains resulted in a lack of wheat pasture and sorghum stubble which allowed only about 35 percent of the normal number of cattle on such pasture. In most years, a great share of scabies outbreaks is found in cattle on winter wheat pastures. With fewer cattle on winter wheat, detection of scabies has decreased. The Department held one training session in FY 1981 covering detection, identification, and treatment of scabies infected cattle and proper use and disposal of pesticides.

The Department secured an exemption from the Environmental Protection Agency for deviation from the label when using toxaphene to treat scabies, in order to use higher concentrations than labels allow. Toxaphene has proven to be the most useful pesticide in dipping scabies infected cattle.

The Merck Sharp and Dohme Company submitted an application to the Food and Drug Administration for the registration of Ivermectin®. This is an injectable product which can be used against internal and external parasites. Ivermectin® is extraordinarily effective against scabies. It could provide the means of accomplishing scabies eradication in the 1980's.

We are proposing to eliminate Federal funding for scabies eradication because the tools are presently available to the States and industry to combat scabies. Toxaphene, Prolate, and Coumaphos are available for use against scabies. In addition, Ivermectin® may become available for use in the next year or two.

Tuberculosis Eradication

In FY 1981, all known affected and exposed tuberculosis cattle herds were depopulated. The 10 affected and 3 exposed herds were in Hawaii, Arkansas, Texas, Illinois, Kentucky, West Virginia, and Vermont (1 affected herd each); Puerto Rico (2 affected herds and 1 exposed herd); and Alabama (1 affected herd and 2 exposed herds).

Slaughter surveillance accounted for 7 out of 13 herds located. Epidemiologic tracing from affected herds led to 3 herds, and selected area testing, milk ordinance testing, and retest of previously infected herds accounted for the remaining 3 herds. Slaughter surveillance and traceback of tuberculosis-infected animals to their herd of origin continue to be the primary tools of tuberculosis eradication. As the prevalence of bovine tuberculosis continues to decline, locating the few remaining tuberculosis herds becomes increasingly difficult.

Twenty States, plus the Virgin Islands, are "Accredited Free of Tuberculosis." South Carolina attained "Accredited Free" status in FY 1981.

Infected herd studies have shown that 25-30 percent of all herds not depopulated will return to infected status in time. This is due primarly to limitations of current test methods on the individual animal.

The FY 1983 funding decrease is proposed because, given the current low incidence of the disease--0.03 percent in FY 1980--States and industry should become more involved in the eradication effort.

Biocontrol

APHIS initiated this program in 1980. Two major pests were targeted for action--Mexican bean beetle and alfalfa weevil. Control efforts against Mexican bean beetle have been carried out by releasing about 3.7 million parasites in Maryland, Virginia, Delaware, and New Jersey. Control in plots where parasites were released was almost 100 percent, but it is too early to draw conclusions about parasite performance. Alfalfa weevil parasites were released in 11 Northeastern, Southern and Midwestern States.

Evaluation of the effect of these releases is underway. Surveys are underway in Western States to determine the status of exotic parasites located there.

In addition, pilot programs on the citrus whitefly and silverleaf nightshade and construction of a new biological control facility at Mission, Texas, in support of the nationwide program are in progress.

In FY 1983, because of the number of ongoing projects, we will not implement any new projects.

Boll Weevil

Control efforts against the boll weevil in the High Plains program continue to prevent spread to Arizona, California, New Mexico, and West Texas. Unfavorable weather conditions were largely responsible for significantly lower populations during the 1979-1981 growing seasons. In 1981, only 80,000 acres required control measures. Present cooperative suppression activities focus on the western periphery of the infested area (Texas Cap Rock). The Department also provides technical expertise for grower control efforts in the Rolling Plains, east of the Cap Rock. Preliminary indications are that populations will be low again next year.

USDA evaluations of the economic, biological, environmental, and overall aspects of the eradication trial were favorable. The independent study conducted by the National Academy of Sciences (NAS) was critical of the planning and execution of these evaluations. In December 1981, USDA officials met with the National Research Council (NRC) to discuss and clarify differences in evaluation conclusions; though some disagreement still exists, it is not considered of such significance to preclude control and/or eradication efforts if producers and the industry take the initiative.

Although we are not requesting funds for a boll weevil eradication program in FY 1983, we have not precluded the possibility for future years. The future of cotton insect management programs is in the hands of the producers. Until decisions on new beltwide or areawide programs are made, resources will finance the Texas High Plains boll weevil program only.

Golden Nematode

The golden nematode currently infests five counties in New York--two on Long Island and three in upstate New York. During 1981, soil fumigants were applied to 257 acres of cropland. An intensive environmental monitoring program was implemented to detect fumigant residue in the treatment area. Of all acres classifed as infested since 1941 and planted to potatoes in 1981, 44 percent were planted with resistant varieties. All table stock potatoes leaving regulated areas are washed or flumed free of soil and moved in new containers. Chipper stock that cannot be cleaned free of soil is processed at designated plants.

USDA is participating in a cooperative effort with the New York Department of Agriculture and Cornell University to accelerate the development of new resistant potato varieties through breeding and meristematic tissue culture studies. The objective is to ensure that an adequate quantity of quality, resistant, seed potatoes will be available by 1988 so all potatoes planted in regulated areas will be resistant to the golden nematode.

Funding was not requested for this program because the pest has been contained within a single State since 1941 and the State and industry are capable of carrying out the program without Federal assistance.

Grasshopper

Rangeland infested areas are treated with short residual insecticides--carbaryl, malathion, or Orthene--when grasshopper populations build to economic levels. USDA, States, and ranchers shared the costs equally, except on Federal land where USDA assumes 100 percent of the costs.

In 1981, APHIS cooperated in treating 1.3 million acres of rangeland, much less than the record 7.2 million acres treated in 1979 and 5.2 million acres in 1980.

After extensive testing, the chemical Orthene was approved for use in grasshopper control. This environmentally safe chemical provides an economical alternative to malathion and Sevin 4 Oil. In addition, APHIS continues to cooperate with the Agricultural Research Service in evaluating the use of the protozoan *Nosema locustae* on large-scale outbreaks. To date, grasshoppper control using Nosema has been poor except when supplemented by carbaryl. The fungus, *Entomophthora grylli*, is also being studied as a possible biological control agent.

Surveys conducted in the summer of 1981 show approximately 36 million acres of rangeland with the potential of having an economic infestation. Historically, only 10-15 percent or 3.6-5.4 million acres of the potential infestation will meet the Federal criteria for treatment.

States and ranchers have gained much experience from involvement at both the policy and operational level of the grasshopper program. The FY 1983 budget proposes that they assume complete responsibility for the program, including survey activities.

Gypsy Moth

The APHIS gypsy moth program is accomplished through survey, regulatory, and control activities. In addition to the APHIS program, the Forest Service conducts suppression activities in cooperation with State agencies in the generally infested area.

In FY 1981, detection and delimiting surveys uncovered a number of new isolated infestations. Over a dozen are in the Chicago area, with others in Fulton County, Arkansas; Santa Barbara, California; Salem, Oregon; Lunenburg County, Virginia; and Dane County, Wisconsin. In California, Illinois, Michigan, Nebraska, Ohio, Oregon, Washington, Wisconsin, and Virginia, 10,000 acres were treated. Eradication was achieved in 11 of the 19 counties treated.

A major cause of artificial spread is movement of outdoor household goods, such as picnic tables, lawn chairs, and similar items.

Isolated infestations result from man-caused or artificial movement of egg masses and other gypsy moth life stages. Currently, families are urged to call a State or Federal PPQ office when moving from high-risk to noninfested areas. The Department is continuing to search for more effective alternatives for monitoring outdoor household goods moving from high-risk to noninfested areas.

Experience also shows that some isolated infestations have resulted from recreational vehicles which have camped in the generally infested area and then traveled to noninfested areas. In FY 1981, APHIS regulated 93 campgrounds and inspected recreational vehicles using these facilities. The movement of nursery stock and commercial timber also contributes to the risk of artificial spread. APHIS inspects log shipments and works under compliance agreements with nurseries to reduce this threat.

The following table shows acreage defoliated by the gypsy moth in FY 1980 and FY 1981:

State	Acres Defoliated 1980	Acres Defoliated 1981
Connecticut	372,213	1,482,216
Delaware	--	500
Maine	221,220	655,841
Maryland	5	8,826
Massachusetts	907,075	2,826,095
New Hampshire	183,999	1,947,236
New Jersey	411,975	798,790
New York	2,449,475	2,303,915
Pennsylvania	440,500	2,527,753
Rhode Island	43,830	272,556
Vermont	75,094	48,979
Michigan	3	18
Total	5,105,389	12,872,725

In FY 1983, we propose a substantial reduction for the gyspy moth program because available technology cannot significantly retard the natural spread of this widely distributed pest. Funds requested for FY 1983 are to continue the search for safe and effective pesticides for possible new approaches in the future.

Imported Fire Ant

In FY 1981, APHIS participated in cooperative control and regulatory efforts with infested States. Other program activities included methods development work on new treatment techniques and environmental monitoring procedures for new insecticides.

Cooperative control treatments using the insecticidal bait Amdro were limited due to bait availability. The manufacturer was reluctant to provide GSA-required pricing data in time for spring applications. Resolution of the problem permitted fall applications in Florida, Mississippi, and Texas.

During the spring and fall, APHIS conducted test applications of new control materials. Under an experimental use permit, EL-468 was applied to noncropland areas in six States. Efficacy data indicate that this material may be comparable to Amdro if formulating problems are resolved. Preliminary studies also show that this new material has the potential to be more economical than currently registered products. Environmental monitoring procedures are being developed for EL-468. Dursban is an acceptable replacement for chlordane in certain regulatory treatments but cannot become a universal replacement because of serious phytotoxicity problems. Vegetable transplants and most succulents are susceptible to damage when grown in Dursban-treated soil. Additional tests are underway to determine if alternate materials are acceptable for regulatory use.

During FY 1981, APHIS conducted 10,260 regulatory inspections, applied control treatments on 937,000 acres, completed 1,068 commodity treatments, and screened 12 alternative chemicals.

APHIS is requesting substantially reduced IFA funding for FY 1983 because the available and approved pesticides provide 80-85 percent temporary control. This level of control does not allow for an effective and economical program. APHIS will concentrate on testing and development of new effective and economical control materials.

Medfly

The Mediterranean fruit fly program maintains regulatory, survey, and control activities from the Isthmus of Tehuantepec in Mexico into Guatemala. Principal technologies used for control are sterile fly releases and bait sprays applied by ground and air. Activities in the United States consist of intensive detection surveys concentrated in high-hazard areas--principally Arizona, California, Florida, Louisiana, and Texas.

The number of adult Medflies caught in detection and delimiting traps in south Mexico decreased from over 6,000 in 1979 to 315 in 1980 to 147 in 1981. The majority of these flies were captured in the extreme southern part of Mexico near the Guatemala border.

Contributing to the decline in infestations was the release of over 7 billion sterile flies in southern Mexico and approximately 4.5 billion sterile flies in Guatemala. By the end of FY 1981, the mass rearing facility at Metapa, Chiapas, Mexico, was producing over 500 million sterile flies per week.

The Medfly regulatory program consisted of inspections at ports, road stations, and train stations within the regulated area. Over 22 million kilos of host commodities were treated to reduce the chance of artificial spread.

The proposed decrease in funding for FY 1983 reflects the success of the sterile fly technique by significantly reducing the need for aerially applied pesticides in Mexico. All other program activities will be continued.

Miscellaneous Plant Diseases and Pests

This program has funded operations on small plant disease and pest problems. It has also provided technical expertise to States for minor plant pests and diseases. For example, regular trapping for the oriental and melon fruit flies continues, cereal leaf beetle parasites are established in 13 States; barberry control is almost 100 percent complete on the 1.1 million square miles where the program was started, and the citrus blackfly is contained in Florida and south Texas through parasite usage. Currently, APHIS provides technical assistance to States on barberry and the citrus blackfly and conducts survey and control activities for the oriental fruit fly and blackgrass bug.

We propose elimination of this program because individual States can assume the responsibility for their own minor disease and pest situations. The contingency fund would still be available where minor problems become more serious.

Noxious Weeds

The hydrilla management program in Florida continues. Test results there show that the white amur, a weed feeding fish, is effective in controlling hydrilla in main irrigation laterals. Further development is planned to determine how to manage fish populations in irrigation waters in all parts of the system.

The hydrilla control program approach at irrigation sites in California changed primarily to methods development. In 1980, control work was not too successful. Komeen, a copper chemical, was applied to heavily infested canals. Rapidly moving water in irrigation canals and laterals prevented the aquatic herbicide from being effective. In 1981, a contract scientist led and coordinated developmental work on control techniques. The hybrid grass carp is being introduced into the system to evaluate its effectiveness for hydrilla control. The State of California Fish and Game Commission has not yet permitted the use of the white amur in their State. At this time, the white amur provides the best control results.

Eradication feasibility studies continued on goatsrue in Utah, crupina in Idaho, and itchgrass in Louisiana. Results of the goatsrue and crupina studies are particularly encouraging. The Technical Committee to Evaluate Noxious Weeds recommended additional species to be added to the Federal Noxious Weed List. These were published in the Federal Register Friday, October 2, 1981.

During FY 1981, the APHIS agricultural quarantine inspection (AQI) program increased efforts to identify and prevent entry of noxious weeds. These efforts included visual inspections, sampling commodities, washing and sieving of soil and dust, and inspecting shipping containers, cargo holds, and used bagging. AQI inspectors received increased training in noxious weed detection procedures.

APHIS did not request funds to support this program in FY 1983 because State, local government, and industry efforts could prevent adverse impacts on crop production. However, the AQI effort continues.

Pink Bollworm

During FY 1981, program efforts were again successful in preventing the spread of the pink bollworm to noninfested areas. Approximately 800 million sterile pink bollworm moths were released in the San Joaquin Valley. Sterile moths are produced and supplied by the APHIS rearing laboratory in Phoenix, Arizona, and by contract.

Also in FY 1981, APHIS proceeded with the second year of the 3-year Baja California, Mexico trials. These trials are designed to study the effectiveness of various combinations of control techniques. They include cultural practices--early planting and stalk destruction--sterile moth releases, insecticides, parasites, and sex attractants. Results of the trials, including refining of control techniques, will be incorporated into the development of a regional pink bollworm management approach. The goals of this regional approach are to reduce the threat of pest migration into the San Joaquin Valley, reduce the level of damage in generally infested areas, decrease costs, and reduce chemical controls.

With the experience they have gained from the cooperative program, growers should be able to conduct all field operations. With the funding requested for FY 1983, APHIS will continue to provide moth eggs for colony development and to provide backup capabilities to individual contractors.

Witchweed

This pest is found in 24 counties in North Carolina and 7 counties in South Carolina on almost 381,000 acres. Eradication has been achieved in 7 counties in this area. During FY 1981, approximately 45,000 acres on the periphery of the infestation were in an eradication program, and 6,400 acres were released from quarantine. A new herbicide, Goal, was registered for control of witchweed in corn in FY 1981. One application of Goal will usually give season-long control of witchweed.

The witchweed mail survey brochure is a successful method of surveying for witchweed. Brochures are distributed in North Carolina and South Carolina and other regions of the United States. Another alternative to visual surveys is soil sampling. A laboratory for processing the samples is located in Lumberton, North Carolina. Land that has not had host plants for years can be released from quarantine on the basis of this survey.

Although witchweed has the potential for reducing yields in all major corn and sorghum areas of the United States, this pest has been successfully contained within North Carolina and South Carolina since 1957. The threat of spread is considered to be limited; thus, we propose elimination of Federal funding for this program. States and industry can assume total program responsibility.

IMPORT-EXPORT INSPECTION

Question: In last year's hearing record (Part 2, pages 167 to 168) you stated, "Placing the fee structure on a full-cost recovery basis could result in a cost prohibitive situation for importers." Yet, this year you are proposing to charge exporters for all costs associated with inspecting and certifying animals and products offered for export. What is the amount associated with this service?

Answer: We project collections of $1.8 million in FY 1983 for animal export inspection and certification services.

Question: Why did USDA change its position on this?

Answer: Our current assessment of the situation is that the impact of charging fees for full costs at the animal quarantine stations will have a minimal overall effect on trade and facility usage. These charges are relatively small when compared with the total value of imported live animals which exceeds $350 million annually. We expect that importers will view the fees as a cost of doing business. We propose user fees for export inspection and certification because exporters are the direct beneficiaries of this service. The $1.8 million in proposed collections for this service represents only a small proportion of the total U.S. animal and animal product exports which exceeded $3.6 billion in 1979.

Question: What is the status of legislation to authorize collection of full costs of quarantine station operations?

Answer: On March 16, USDA transmitted a draft bill to the President of the Senate and the Speaker of the House for consideration. The draft legislation is designed to extend the authority of the Department to collect fees for the full cost of quarantine, inspection, and certification operations.

Question: Will regulatory or legislative action be necessary to implement the export certification fee system? What is the status of this action?

Answer: Yes, changes in legislation and regulations are required before we can implement the export certification fee system. The proposed legislative change is included in the draft bill we forwarded to Congress on March 16.

FIRE ANTS

Question: I received a letter yesterday from Anne Gorsuch, Administrator of EPA, outlining plans to hold a joint symposium between EPA and USDA to consider the full range of issues related to the control of fire ants. Have you been contacted by EPA officials about a possible date and place for this symposium?

Answer: EPA and USDA will jointly sponsor a symposium on the fire ant. The purpose of this conference is to gather data to aid EPA in its pesticide regulatory function and USDA in its operational and research programs. The symposium is scheduled for the week of June 5 at a location to be decided later.

Question: Could you outline for me the options available for eradicating fire ants?

Answer: Since restrictions were initially placed on the use of mirex in 1972, we have not had a tool capable of eradicating the fire ant. Amdro is the only material currently registered for application on noncropland, and while it provides temporary control, it is not capable of eradicating the fire ant.

Question: Is there a difference of opinion between USDA and EPA on this issue?

Answer: We have worked closely with EPA on this issue, and they are aware of the problems we have faced in trying to control the fire ant. We both recognize that an eradication tool is currently not available and that the Department and industry need to continue research and methods development work to find an effective control or eradication tool.

Question: In the 1983 budget you requested $2,625,000 for the fire ant program. This is a reduction of $3,290,000 from last year's level. In the explanatory notes you state that since gaining EPA approval of Amdro individual states have a tool for fighting ant infestations. This, you say, allows USDA to reduce its role in pesticide application. Does this mean USDA has dropped plans to assist in bringing this pest under control.

Answer: No, we are not dropping our total fire ant effort. Rather we are limiting our role to more appropriate Federal functions such as regulatory work to prevent artificial spread and development of new control techniques.

We did not request funds for pesticide application because label restrictions and pesticide effectiveness preclude a regionwide control effort. Current technology and authority make control the only viable alternative. States are capable of mounting such control efforts with available pesticides and the support of APHIS methods development work.

Question: How do you plan to use the $2.6 million requested?

Answer: This amount will be used to continue regulatory activities which prevent the artifical spread of the fire ant to noninfested areas. We will also continue methods development work in field testing of new control materials. Major development activities in FY 1983 include large-scale testing of chemicals, such as EL-468 and Avermectin, which show promise as control tools and further evaluation of Lindane as a replacement for chlordane in quarantine treatments of nursery stocks.

Question: Do you have an overall strategy for eradicating fire ants? If not, why? If so, how many years and how much money will it take to bring this pest under control?

Answer: Our present program is designed to prevent further spread rather than to eradicate the fire ant. While eradication is desirable, we do not have any eradication tools available. The one chemical material available for noncropland use, Amdro, provides only limited control. We will continue our survey and quarantine work in cooperation with the States' pesticide application programs. APHIS will field test new materials, and the Agricultural Research Service will continue its research on new tools to cope with the fire ant.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

SCABIES

Question: The funding for cattle scabies has been eliminated. Is this because the problem has been eliminated?

Answer: No, the problem has not been eliminated. There were 146 outbreaks in 14 States in FY 1981, and 98 outbreaks have been reported in 11 States so far this year. The APHIS program has been proposed for termination because we feel that the States and industry can take over responsibility for scabies control.

Question: How many outbreaks have you had in the last year and in what states?

Answer: In FY 1981, there were 146 outbreaks reported from 14 States--29 from Texas, 27 from Kansas, 17 from Nebraska, 16 from Colorado, 12 from New Mexico, 11 from Oklahoma, 9 from Iowa, 7 from South Dakota, 5 from Arizona, 5 from California, 4 from Minnesota, 2 from Illinois, 1 from Missouri, and 1 from Idaho.

As of March 19, 1982, 98 outbreaks have been reported in FY 1982. They were reported from 11 States--34 from Colorado, 14 from Texas, 14 from Kansas, 8 from Nebraska, 8 from New Mexico, 7 from Iowa, 4 from California, 4 from Oklahoma, 3 from Idaho, 1 from Minnesota, and 1 from Wyoming.

BRUCELLOSIS

Question: The national cattle organizations basically support the direction you are taking in regard to brucellosis provided "that the industry has input into program as to where the cuts are and future funding of the program not be cut as much as proposed." Can you address these concerns?

Answer: We propose phasing into a voluntary vaccination program by FY 1985. Under this proposal, brucellosis funding would be reduced to $26 million in FY 1984 and $6 million in FY 1985 and thereafter. We feel that voluntary vaccination is the approach to take to combat brucellosis and that producers and industry should take a more active role.

Once the final decision is made as to the future funding level and direction of the program, APHIS will meet with representatives of the major industry organizations, as well as State officials, to discuss the program elements to be retained and implementation plans.

GRASSHOPPERS

Question: Grasshoppers have been a problem in my part of the country in the past. What is your projection as to this year's infestation?

Answer: Based on the adult survey completed last fall, our best estimate at this time is that economically damaging infestations may develop on about 3.5 million acres. However, this estimate could change significantly after the spring survey as a result of environmental conditions.

Question: Will the funds be available to protect states that might be infested this year?

Answer: We have already committed our entire contingency fund for scrapie indemnity payments. We are considering alternative sources of funding for grasshopper control, including reprogramming and the Secretary's new emergency authority. The most promising source of funding is a transfer of funds after a declaration of emergency by the Secretary. However, the problem here is meeting the criteria for declaring an emergency before it exists and getting funds in time--before grasshoppers start to emerge--to carry out an effective program.

Question: Just how effective has the spraying that has been done been in reducing the threat of this pest?

Answer: Major grasshopper outbreaks are periodical in nature, resulting from complex ecological factors such as climatic conditions, and the presence of parasites, predators, and diseases. Normally, when we treat an area determined to have an economic infestation, grasshoppers will be reduced to noneconomic levels for at least 3 years, and possibly a longer period, depending on these factors.

FY 1983 BUDGET

Question: APHIS is scheduled for a larger cut than any other agency in the Department of Agriculture. If we agree to these cuts aren't we in fact taking a step backwards?

Answer: Though large, APHIS' reduction is not the largest of any agency in the Department of Agriculture. The dollar reductions and percentage reductions of the Agricultural Stabilization and Conservation Service is larger than for APHIS. We do not see an APHIS reduction as a step backwards. Our budget proposals reflect a shift of responsibilities in some areas of animal and plant protection from the Federal level to State and local governments, industry, and individuals. We plan to maintain our close cooperative relationships with these groups; our discussions will involve a careful setting of priorities. Where economically justified, many programs will likely be continued at current levels; only cost-sharing arrangements will change. APHIS will continue to provide national leadership, placing priority on those key areas necessary to fulfill our mission of protecting our national agriculture.

In view of the proposed reduction, APHIS is defining the basic resource and organization needs to maintain an effective national animal and plant pest and disease control operation. We believe that we can maintain a basic level of protection for American agriculture through our most important activities of quarantine inspection at ports of entry, surveillance and detection, laboratory and technical support, emergency reaction capability, and international cooperation.

Question: Just what effect will these cuts have on our efforts to eradicate pseudorabies and bluetongue?

Answer: Our FY 1983 budget provides $266,000 for the pseudorabies program, which is approximately the same level as in FY 1982. In 1983, we plan to continue efforts to develop a pseudorabies program which is acceptable to Federal, State, and industry concerns. The FY 1982 appropriation and the FY 1983 budget provide no funding for a bluetongue program in APHIS. APHIS has ceased all bluetongue work.

FOOD SAFETY AND INSPECTION SERVICE

STATEMENT OF:

DONALD L. HOUSTON, ADMINISTRATOR, FOOD SAFETY AND INSPECTION SERVICE

ACCOMPANIED BY:

C. W. McMILLAN, ASSISTANT SECRETARY, MARKETING AND INSPECTION SERVICES

JOSEPH A. POWERS, DEPUTY ADMINISTRATOR, ADMINISTRATIVE MANAGEMENT, FOOD SAFETY AND INSPECTION SERVICE

WILLIAM L. WEST, DIRECTOR, BUDGET PLANNING AND EVALUATION DIVISION, FOOD SAFETY AND INSPECTION SERVICE

LOU GAST, ASSOCIATE ADMINISTRATOR, FOOD SAFETY AND INSPECTION SERVICE

ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

ACTIVITIES OF FSIS

Senator COCHRAN. Our second panel today consists of spokesmen from the Food Safety and Inspection Service.

The Food Safety and Inspection Service insures that the Nation's commercial supply of meat and poultry products is safe, wholesome, and correctly labeled and packaged. It conducts inspections before and after slaughter of certain domestic livestock and poultry, as well as during the processing of meat and poultry products.

PREPARED STATEMENT

Joining Assistant Secretary McMillan on this panel is Donald L. Houston, Administrator, Food Safety and Inspection Service. We have Mr. Houston's statement which we will place in the record at this point.

[The statement follows:]

PREPARED STATEMENT OF DR. DONALD L. HOUSTON
ADMINISTRATOR

FOOD SAFETY AND INSPECTION SERVICE

Mr. Chairman, I am pleased to be here today to discuss the FY 1983 budget for the Food Safety and Inspection Service.

It has been 75 years since the Federal Meat Inspection Act of 1906 was passed. During those years, USDA has worked with industry to assure a meat and poultry supply in which consumers can have confidence. However, the inspection program cannot remain stagnant if it is to be responsive to a progressive industry and sophisticated public. While we strive to improve the program, today's economic and regulatory climate dictates that we be keenly aware of the impact of our policies on the regulated industry, the public, and the economy.

We in FSIS feel the Agency is on the right track--we are working to meet the challenges of today's technological society while keeping our budget tightly controlled. We will continue our strong record on increased inspector productivity and program improvements to hold down costs without sacrificing consumer confidence.

We are including in our budget request a legislative proposal which would give the Secretary more discretion in determining intensity of inspection in individual plants. We believe this is a logical and practical next step in our program to modernize inspection.

The budget presented to this committee for consideration proposes an appropriation for FY 1983 of $319,876,000. This is an increase of $11,648,000 over the FY 1982 appropriations and reflects several costs which are not included in the 1982 amount:

--$12,032,000 for the FY 1983 costs of the October 1981 Federal pay raise.

--$3,100,000 to provide for assumption of several State inspection programs which were not funded by their own State legislatures.

--$2,106,000 for helping the remaining State programs meet increased personnel and operating costs in their programs.

--$4,768,000 for implementation of an improved residue avoidance program, initiated in 1982.

As you can see, these actual increases of $22,006,000 represent nearly double the increased amount we are requesting. Planned program improvements will offset the remaining $10,358,000.

IMPROVEMENTS IN THE INSPECTION PROGRAM

We in FSIS are continually exploring new methods to modernize the inspection program. Improved procedures are making the Federal inspection program more efficient and cost-effective, without reducing consumer protection or placing undue burdens on the industry.

These changes are far-reaching, with significant impacts on the industry and our own inspection force. Each new step is thoroughly tested and then implemented with the least disruption possible. Yet, while we are trying to minimize any difficulties caused by our new efforts, we cannot let controversy stop the necessary modernization effort.

Over the past 20 years, the budget for meat and poultry inspection has risen from $31.5 million in 1960 to $308.2 million in 1982--almost a ten-fold increase. Until about 1968, the rate of increase in the program's operating budget was comparatively slow. Over the past decade, however, our costs have risen at a much faster rate.

A number of factors have worked to create this situation. Inflation is one. FSIS has also had to take over a number of State inspection programs; mostly because the states could no longer afford to operate them. We have also had to provide inspection for a growing volume of product. In 1981, we inspected 52 billion pounds of slaughtered meat and poultry--compared to just over 46 billion pounds in 1975. We inspected 106 billion pounds of processed meat and poultry products--up from 71 billion pounds in 1975.

It is important to point out that the cost of inspection as a percentage of the value of meat and poultry produced is going down. Comparing our appropriations with industry figures supplied by the Department of Commerce, we can see that the index has steadily declined since 1977. This declining index indicates that either the cost of producing meat and poultry products is rising more rapidly than the cost of inspection, or that the program is becoming more efficient. We believe that at least some of this decrease is due to increased productivity within the program.

Our ongoing effort to improve inspection--including changes already in place and others still being developed--has already produced improved productivity for the Agency. In recent years, while the amount of inspected product has increased, FSIS has been able to carry out its responsibilities with a decreasing number of inspectors.

The trend can be illustrated by statistics from the last four years. In 1978, 8,394 USDA inspectors inspected 49 billion pounds of slaughtered meat and poultry and 92 billion pounds of processed products. By 1981, we were inspecting 52 billion pounds of slaughtered product and 106 billion pounds of processed product--yet the number of inspectors declined to 7,700.

These apparent gains in productivity were accomplished through new, more efficient inspection procedures which have had similar positive impacts on the productivity of the regulated industry. Using 1978 as a base year, USDA inspectors in meat and poultry processing plants were 10 percent more productive in 1979, 19 percent more productive in 1980, and 25 percent more productive in 1981. The gains in slaughter, while not as high, are also significant: after leveling off in 1979, inspectors were 10 percent more productive in 1980 and 12 percent more productive in 1981.

SLAUGHTER INSPECTION MODERNIZATION

For 1983, the agency is proposing a reduction of $3,255,000 and 155 staff years in our projected [illegible] for slaughter inspection. The reduction has been made possible by the introduction of more efficient inspection procedures.

There have been many new developments in animal production that permit new, more efficient methods of carrying out inspection in meat and poultry slaughter plants. New inspection procedures are proving to be more efficient but just as effective as the present procedures, and importantly, are removing obstacles to improved industry productivity.

Several years ago, we took a major step forward with the recognition that the one-inspector/one-bird approach to poultry inspection could be modified. Through several studies, it was determined that a group of inspectors arranged in sequence with each inspecting only a specific part of the carcass--for example, the outside, the inside, or the viscera--could operate more efficiently.

The first major change along these lines was modified traditional inspection for broilers, implemented in 1979. By installing a mirror at the inspection station, the inspector could see all sides of the bird without having to turn the carcass by hand. Reducing the hand motions reduced the time it took to inspect the bird, so slaughter lines moved faster and plants could increase their rate of production. As a result of instituting modified traditional inspection, we could increase the maximum linespeeds from between 54 and 64 birds-per-minute to 70 birds-per-minute with no loss of inspection effectiveness. Depending on the slaughter line configuration in a plant, that was an increase of from 9 to 30 percent in linespeeds in broiler slaughter plants. Additionally, we estimate that modified traditional inspection increased inspector efficiency by approximately 15 percent and will save FSIS about $3 million annually in reduced inspection costs.

More improvements in poultry inspection are on the horizon. We have completed testing of sequenced inspection procedures that will provide further increases in slaughter linespeeds and plant productivity. When plants make appropriate changes in processing lines, USDA is prepared to approve layouts that operate up to speeds of 85 birds per minute. Comparing this to the 54/64-birds-per-minute speed of several years ago, the agency and the industry can reap the benefits of a 33-57 percent increase in productivity.

Prospects look very encouraging on new inspection procedures for turkeys. Implementation of a new procedure now being tested should enable many turkey slaughter plants to operate with somewhat higher linespeeds, but, more important, avoid production losses currently caused by line stoppage necessary for inspectors to complete the removal of unwholesome tissue.

Last fall, new inspection procedures were implemented in swine slaughtering plants. An early study in plants where the new procedures are being used shows they have increased productivity by an average of 14.6 percent since production lines can now move faster. Plants have also reduced overtime costs by being able to reduce their hours of operation. When we project this to all the plants eligible to use the new inspection procedures, there is a potential for annual benefits to the industry of nearly $98 million in reduced labor and overtime costs, and increased productivity.

We are also testing new, more efficient procedures for cattle inspection. Further in the future, we are looking at the feasibility of "flock testing" for poultry, and we now have a study underway at Tuskegee Institute. This study is based on the premise that there may be certain factors in a flock of birds that could be used to predict the conditions of the entire flock. If such were the case, information derived from these factors could be used to allow FSIS to vary the intensity of inspection.

Among the factors making these changes in slaughter inspection possible is the changing animal disease picture. In April, FSIS will implement a new nationwide Animal Disease Reporting System, providing much more specific information about the incidence of various animal diseases and their geographic distribution. From this, we will have better data on present and emerging disease problems, and a basis for determining whether a disease is still a problem in the animal population so we can tailor our inspection procedures accordingly.

MODERNIZATION OF PROCESSING INSPECTION

Voluntary Total Quality Control Inspection

The most critical area in which we are improving our efficiency and productivity is the inspection of processed meat and poultry products. This is the area where we are experiencing the greatest cost escalation, a reflection of the rapid increase in the volume of product being manufactured. Looking at inspection figures since 1974, we see a steady and fairly dramatic increase. In 1974, just over 73 billion pounds of processed products were inspected by USDA. In 1981, however, the industry was producing 106 billion pounds of product in federally-inspected meat and poultry plants.

This situation helped provide the impetus for the voluntary Total Quality Control (TQC) inspection program implemented in 1980. Under the TQC program, a plant can apply for USDA approval of its quality control system. Once the system has been approved, FSIS inspectors can do their job in part by monitoring and verifying the system and its records.

TQC is more efficient than the more traditional practices because it relies on the analytical technology already in use by the industry; it is more effective because it uses more objective criteria.

The Voluntary TQC Program is still relatively new--there are now about 50 plants approved for participation--and we have yet to realize the significant productivity benefits which we believe will eventually accrue. From the feedback we are getting, however, we have good reason to believe the program will continue to grow.

Revision of "Continuous Inspection" Provisions

Nonetheless, we will not be able to fully realize the benefits of Total Quality Control until we gain more flexibility in assigning inspectors to processing plants. That is why our budget request includes a legislative proposal to revise the "continuous inspection" provisions of the meat and poultry inspection laws. Developments in the meat and poultry industries since these provisions were enacted will allow us to inspect more efficiently--and just as effectively--if the laws provide some flexibility in their application.

When the Federal Meat Inspection Act was passed in 1906, it was determined that the language authorizing the inspection of "all meat food products" called for an intensive system of inspection with government inspectors in plants on a daily on-site basis. This came to be known as "continuous inspection." Over the years, however, processing activities have become highly differentiated from slaughtering activities, and it is apparent that maintaining the same form of inspection in all processing plants, regardless of their kind or procedures, is no longer an efficient use of inspection resources.

Furthermore, processing methods have evolved from relatively simple procedures such as cutting and boning meat and curing and smoking hams into highly sophisticated, technologically advanced operations. There are now thousands of processed food products containing a wide range of ingredients. Mass production equipment has been introduced, and there is a greater variety of processes. Improved methods of monitoring processing operations also have been developed.

Clearly, these advancements offer a solid foundation upon which to build a less cumbersome inspection program. The standardization of production under these new technologies permits the inspector to obtain a good picture of the total system and the final product by focusing on critical control points.

We have an opportunity to use what we have learned over the years to increase program efficiency. We know now that a plant's compliance with regulatory requirements can be predicted on the basis of criteria which include the public health risk of the operation, the ability of the plant to monitor its own processes, and the plant's history of compliance. In some areas, we need more inspection and in others, we need less.

To implement the innovations needed in the inspection system, USDA must have the flexibility to allocate inspection resources in a way that will take advantage of the opportunities available to increase the efficiency of inspection in some plants, and which also recognizes the special problems of small plants. The legislative proposal would provide that flexibility.

Essentially, the proposal would give the Secretary of Agriculture greater discretionary authority in deciding the intensity and level of inspection to be used in the further processing of meat and poultry products. We are confident that this would enable us to do our job more efficiently, and at the same time maintain or improve the level of consumer protection being afforded.

This proposal offers the opportunity for significant long-term savings as well as some immediate cost reductions in 1983. During the first year, we expect to save $2 million. However, with careful implementation, ultimate annual savings could be many times that amount.

MANAGEMENT IMPROVEMENTS

FIELD STRUCTURE

The program reductions proposed for 1983 include not only the operational changes I have described, but also measures which streamline the field and headquarters management of the Agency.

We are proposing to close all of the 27 area offices of the Meat and Poultry Inspection Program. The area offices were established in 1972, largely to help administer the rapid growth of the Federal and State inspection programs following the amendment of the inspection acts in 1967 and 1968. The amended acts required states to conduct inspection programs equivalent to the Federal program or, failing that, required USDA to assume inspection in plants formerly under State control.

In the early 1970's, the Agency saw a benefit in establishing local area inspection offices to advise and guide the State programs. However, this need no longer exists. Fewer states now maintain their own programs and those that carry out State inspection have the necessary expertise. There is still a need for close cooperation between Federal and State inspection systems, but we are confident that the work can be handled by our five regional offices. The closings do not affect inspectors in the plants nor their direct line supervisors.

Closing the area offices will save 81 staff years after transferring the necessary supervisory and management staff to the regional offices. This step will save the Agency $1.6 million.

FSIS has also improved the functioning of its field staff through a major realignment, completed in 1981. The new structure increases the efficiency of the supervisory organization by distributing workloads more evenly among the regions. The Agency also introduced a revised management system for monitoring workload balance so that supervisory and management changes can be made as needed, eliminating the need for large-scale realignment projects in the future.

TRAINING

As part of our efforts to control Agency costs, we are proposing changes in training programs for inspectors. Much of the major expense of Agency training results from travel to our training center in Forth Worth, Texas. In 1983, FSIS proposes to close this center. Instead of large classes of inspectors traveling to the one center, individual instructors will now conduct classes near inspection sites. The program will also make wider use of on-the-job training and self-instructional materials. This change will save about $1 million, mostly in reduced net travel costs.

Our present field supervisory staff includes nearly 200 circuit supervisors, each of whom oversees inspection operations at 30 to 40 plants. Much of the responsibility for maintaining uniform high standards of inspection rests with them. The Agency formerly maintained 21 assistant circuit supervisor positions as training posts for future circuit supervisors. These 21 positions will be abolished in accordance with recommendations of the Agency task force studying field realignment. We will use more economical methods of training new circuit supervisors at a savings of almost $700,000.

ADMINISTRATIVE REDUCTIONS

Parallel with field management reduction, the Agency will reduce its headquarters staff by 30 positions, with total savings of $1.8 million in 1982. Approximately $1,460,000 will be saved through elimination of low priority administrative support activities and streamlining of the entire headquarters operation to provide essential program support in the most economical way. Reductions in publications and audio-visual materials will help us realize a savings of some $200,000, and internal Agency reorganization, about $140,000.

Partly as a result of reduced agency-required paperwork from inspected plants, FSIS has determined that it no longer needs to maintain two separate field data centers. The Chicago data center has been closed and its functions merged with those of the Des Moines center. Fiscal year 1983 savings from this change are projected to be about $80,000.

ACCREDITED LABORATORY PROGRAM

Federal regulation of the meat and poultry supply requires scheduled laboratory testing of food products for moisture, protein, fat, and salt content, and for chemical residues to assure there is no misbranding or adulteration. The Agency's laboratories perform tests on approximately 200,000 such samples per year. Since 1962, the meat and poultry inspection program has recognized the competence of certain non-government laboratories to perform some moisture, protein, and fat testing. In 1969, this Accredited Laboratory Program was expanded to include food chemistry sampling for all types of processed meat and poultry food products. Since 1971, the program has recognized private laboratory analyses for the detection of chemical residues.

The Agency's acceptance of outside laboratory results in both food chemistry and residue testing has distinct advantages for both the Federal program and the industry. Industry finds it convenient to pay for testing at nearby laboratories instead of having samples shipped to one of the three FSIS field laboratories. At the same time, Federal costs and workload benefit from an annual cost avoidance of about $500,000. Participation in the FSIS Accredited Laboratory Program is voluntary.

In 1981 the Agency applied more consistent, formalized standards to ensure reliable results from the accredited laboratories. A quality assurance program, embodied in a laboratory manual and verified by onsite reviews and regularly scheduled analyses of split samples, assures the reliable performance of these laboratories.

FUNDS FOR MANDATED PAY RAISE

While we are making management improvements that reduce our administrative costs, we are faced with a mandated Federal pay raise which, in a labor-intensive agency such as FSIS, is substantial. Our budget for FY 1982 did not include funds to cover the pay raise beginning in October 1981. Therefore, we are requesting an additional $12,032,000 over the FY 1982 appropriation for FY 1983 costs of the pay raise.

STATE INSPECTION PROGRAMS

During 1981, four states found it necessary for budgetary reasons to discontinue their inspection programs: Arkansas, Idaho, Rhode Island, and Michigan. In addition, South Carolina terminated its Talmadge-Aiken agreement.

The increased Federal responsibilities in the states where programs have been recently designated will also add to the Federal inspection program costs. Therefore, we are requesting $3,100,000, which added to the funds previously paid to these states in grants, would provide for the 287 new inspectors that need to be added to the rolls.

FSIS has been working with the states to lower their costs, as we have done in the Federal program. Nevertheless, salaries of State inspection personnel are rising, and support costs for these programs, particularly the heavy travel costs, have felt the effects of inflation. Accordingly, our 1983 budget calls for $2,106,000 for increased grants assistance to the cooperating states. This requested increase would maintain USDA's commitment to strong, independent State inspection systems.

In addition, USDA is supporting legislation recently introduced in the House of Representatives by Rep. William Wampler that would permit State-inspected meat or poultry products to be sold outside that State. Some State inspection programs have felt they were handicapped by the current law which limits product from plants under State inspection to sales only within that state.

The legislation goes far in recognizing the equivalency of the State and Federal systems, as mandated by law. However, it also provides safeguards that ensure State-inspected meat would not be exported -- preserving parity with many of our foreign trade partners.

RESIDUE PROGRAM

For the past 12 years, USDA has carried out a comprehensive residue control program designed to minimize the potential hazards of exposure to unacceptable levels of residues. Even with the successes of this program, the livestock and poultry industry continues to suffer substantial losses associated with violative residues. We at USDA believe many of these losses could be prevented by stronger industry and producer vigilance.

Recently, the Department decided it was time to take an innovative approach to the problem, in line with the Administration's efforts to reduce the regulatory burden while maintaining high safety standards. With funding provided by the 1982 appropriation, FSIS this year is launching its new educational effort--the Total Residue Avoidance Program (TRAP). We are requesting $4,768,000 for FY 1983 to continue this major new initiative. This would bring the program up to the funding level originally approved by this subcommittee for FY 1982.

The main point of TRAP is that to avoid residues in the food supply, producers must learn how to avoid contamination at every stage of production. By viewing animal production as a "system," producers can institute checks at various points to prevent residues. The checks are analogous to "quality control" testing done in industrial production.

Of the $3.2 million initial appropriation for this program, $1 million is being transferred to the Department's Extension Service for the development of cooperative residue control demonstration programs.

Because the Agency will be monitoring the National residue problem in a different way, we are developing a more sophisticated statistical system. This will enable us to do less monitoring of those who have cooperative residue programs with us, and to concentrate on those who have the highest probability of misuse or illegal use of drugs or whose products contain enviromental contaminants. We can do this with a high level of assurance that the cooperators' product has a very low likelihood of contamination. Also we are working closely with FDA to establish a consistent policy on enforcing the tolerances and action levels.

To achieve the degree of statistical confidence we need, we will intensify our sampling efforts on a non-regulatory basis to determine the actual biological distribution of compounds within the herd or flock. These data will then serve as a basis for determining acceptable residue levels on a lot, herd or flock basis.

Another $500,000 will go to private laboratories under FSIS contracts for the development of rapid methods to detect residues. The remaining $1.7 million is funding the Agency's emergency response system for major contamination problems, Agency laboratory methods development, and the FSIS educational effort which will help establish producer-run control programs such as those in Virginia, and North Carolina.

The Agency has thus far met with encouraging success in its discussions with representatives of producer groups. Several have already begun working with us on cooperative total residue avoidance programs.

STRENGTHENED CONTROLS ON IMPORTED MEAT

This year, FSIS saw the integrity of its import inspection system severely tested--and it prevailed. Fortunately, the worst part of the Australian meat substitution scandal is now well behind us. Last December, I visited Australia and viewed first-hand the new controls instituted by that country. I am satisfied that their control system coupled with our own strengthened import inspection program assure the safety of imported meat.

What at first appeared to be a serious but isolated incident soon grew to alarming proportions, and over a period of nearly half a year it challenged the resources and patience of the American industry and government. During that time, the Agency took a long, hard look at all phases of the import inspection system, and made the necessary improvements.

In July 1981, an FSIS inspector retained and sampled three frozen blocks of boneless beef, based on their abnormal appearance. Tests confirmed that horse meat had been substituted for beef. With the aid of the Australian government, FSIS traced the problem to a meat substitution scandal in the State of Victoria, operating outside the controls of Australia's federal inspection system.

As soon as the substitution was uncovered, FSIS began impounding and testing all Australian boneless beef in this country. Within several days, FSIS had located nearly 66 million pounds of the product. All incoming Victoria product became subject to intensified inspection, while other Australian product was handled under a special species monitoring program at U.S. ports. FSIS sampled the Victoria product on a plant-by-plant basis, and as tests on a firm's product confirmed its species as beef, the meat was allowed to enter U.S. commercial channels.

Last August, in an attempt to arrest the problem and prevent any future occurrences of a similar sort, Secretary Block announced a series of tough steps designed to strengthen the U.S. import inspection program. In addition to strict requirements on product coming from Australia, the Secretary announced this Agency would be requiring other exporting countries to initiate a species testing program; that we would spot-check all boneless meat entering U.S. ports to assure its species is as labeled; and that we would review compliance activities in major exporting countries. Immediately, FSIS followed through on those commitments, and we have completed or are carrying out each one of the promises he made.

But we didn't want to stop there. In the process of pinpointing the problem to several plants in the State of Victoria, the Agency learned a great deal about the kind of deficiencies in the U.S. and other systems that would allow illicit substitutions and other inspection violations to be made.

As a result of intensive study and deliberations, FSIS officials developed a plan to strengthen requirements on countries exporting boneless meat to the United States and tighten controls and procedures used in the inspection of the product at U.S. ports of entry. Also, to ensure that domestic inspection maintains the integrity of both the U.S. meat supply and exports to other countries, the plan included actions to strengthen controls on domestic boneless meat inspection.

On November 13, we sent a cable to eligible exporters, requesting by February 1, 1982, information on controls and laws within their systems to prevent the illicit substitution of illegally prepared meat. We will use this information in conducting an extensive review of the systems. We also asked for detailed plans for a species determination program in each country that will supplement and verify the effectiveness of those controls.

On November 10, we implemented a species identification monitoring program at all U.S. ports of entry. To further improve port-of-entry inspection procedures, we are beginning to explore an "early warning system," which would provide for an automatic and systematic review of inspection findings that exceed predetermined defect levels for countries or plants. Also, the system would include histories of defects which indicate that the meat was illegally prepared. We will review the present procedures carried out at ports of entry and revise them, if necessary, by this time next year.

We have implemented a domestic species monitoring program, and are now in the process of reviewing program controls to ensure that meat traveling through domestic distribution channels remains safe, wholesome, and properly labeled.

While in Australia I also reviewed their new security procedures and pre-export species testing program. Those strengthened controls require that their government take full physical control over the movement of exported meat. That country is committed to the success of the new system and I believe it will work. It is also in the best interest of our own consumers and industry that the system be maintained.

We expect these measures will significantly improve our import inspection program. We are already seeing evidence that they have. But we will continue to reexamine the program, reevaluate the plan, and make any revisions overall that will increase assurances that foreign product is an acceptable part of the American meat supply.

EXPORT COORDINATION

Exports of meat and poultry products are a vital part of our economy. That is why FSIS has taken steps to help ease problems in marketing U.S. products in other countries.

Regulations and other restrictions by foreign countries sometimes have resulted in barriers that halt U.S. meat and poultry exports. To minimize these problems, FSIS used existing funds to establish an Export Coordination Staff to facilitate the export of U.S.-produced meat and poultry products. To help American producers maintain and expand foreign markets, the staff stays in close contact with inspection officials in other countries as well as with U.S. government agencies, trade organizations, and the industry.

The progress so far has been promising. The staff has successfully simplified required paperwork for export certification to certain countries. In addition, it has worked to modify foreign inspection requirements that conflict with our own. Perhaps the greatest value of the staff has been the personal working relationship we have been able to establish with inspection officials in foreign countries.

Although a great step forward, the staff itself cannot head off all problems. A recent ruling by the United Kingdom has effectively cut off all U.S. exports of uncooked poultry--nearly 1,500 metric tons--to that country. The problem stems from a September 1981 ban on imports of fresh and frozen poultry, eggs, and egg products if the exporting country is not free of Newcastle disease. Today only 30 American poultry plants are eligible to export cooked poultry to the U.K.

To try to avoid these problems in the future, the Export Coordination Staff is meeting with foreign officials to map the exact requirements of each country and to try to reconcile the differences between the countries. As an extension of this effort, we have assigned a veterinary attache to the European Economic Community in Brussels to help us anticipate any differences in regulations or procedures that may impede trade.

We plan to continue these efforts to promote the free flow of trade.

SODIUM

The public is becoming increasingly interested in the sodium content of foods, as evidence links sodium intake with hypertension. Sodium labeling of meat and poultry products under the jurisdiction of FSIS is required only if the product label makes specific claims such as "lower in salt" or "lightly salted," but some manufacturers voluntarily add sodium information to their labels. FSIS has taken an active role in meeting public concerns about sodium through a four-point program. The program calls for:

--Efforts to encourage industry to voluntarily increase sodium labeling and marketing of meat and poultry products with lower sodium contents.

- --A research program to develop safe and palatable reduced-sodium meat and poultry products;
- --Information to the public about sodium; and
- --Monitoring the sodium content of products under FSIS jurisdiction to establish trend data.

FSIS has formed a task force to make recommendations on sodium policy, and is working closely with industry and other government agencies. FSIS and USDA's Agricultural Research Service (ARS) have agreed that ARS will begin research on reducing the sodium content of processed meat and poultry products while maintaining product safety and quality. FSIS also is developing a publication with the Food and Drug Administration that will provide the public with general information about sodium.

SALMONELLA CONTROLS

During the past year, there have been several outbreaks of salmonellosis (a type of food poisoning) traced to cooked beef products, mostly roast beef, from Federally-inspected plants. Prior to these outbreaks, the last salmonella problem attributed to this type of product was a 1978 outbreak traced to precooked roast beef.

Before the 1978 outbreak, there were no USDA temperature requirements for rare roast beef. Subsequent to that outbreak, the meat inspection regulations were amended and a special bulletin was issued to outline time and temperature requirements for cooking roast beef.

FSIS officials believe that current regulations and guidelines, if followed properly, are adequate to control salmonella. The Agency is working closely with the industry to assure that they take the proper precautions to assure that their products are cooked properly--and handled correctly after cooking.

The Agency is also taking several steps to assure that its own inspectors, as well as plant employees, are properly prepared to control this problem:

- --Emphasis to all levels of field supervisors on the importance of following the present regulations and guidelines.
- --Development of a new educational campaign aimed at inspectors and plant operators to stress the importance of sanitation in inspected plants,

including development of special training materials on sanitation and handling practices designed for all inspection employees.

- --A review by regional officials of processing and handling procedures of all 104 roast beef processing plants in the Northeast Region, where the bulk of the contamination incidents have occurred
- --Plans for a special review of roast beef production and handling practices in an additional 146 plants across the country by the Administrator's Review and Evaluation Staff.
- --A review of present regulations and guidelines to improve and clarify them.
- --Development of a nationwide monitoring program of cooked beef samples to assure that standards are being met.
- --Improvements in communications with State Health Departments.

As we conduct our monitoring program, we expect to uncover additional salmonella problems. We will work to keep this product out of consumer channels. Nonetheless, we believe it is important that industry recognizes that they must follow approved practices to avoid further endangering the public health.

Mr. Chairman, this completes my prepared statement. I will be happy to answer any questions you or other committee members may have.

INTRODUCTION OF ASSOCIATES

Senator COCHRAN. Mr. Secretary, any comments or observations you would like to make at this point would be welcome.

Mr. MCMILLAN. Thank you very much, Mr. Chairman.

As in the case of the Animal and Plant Health Inspection Service, we have what I consider to be a critical agency within the Department of Agriculture in the Food Safety and Inspection Service. Accompanying us in addition to Dr. Houston, whom you have acknowledged, is Mr. Lou Gast, Associate Administrator, Food Safety and Inspection Service; Mr. Joseph Powers, Deputy Administrator for Administrative Management; Mr. William West, Director of the Budget Planning and Evaluation Division; and Mr. Robert Sherman, Deputy Budget Officer for USDA.

Presenting the formal request, however, will be Dr. Houston.

Senator COCHRAN. Welcome to the committee.

Dr. HOUSTON. Thank you. It was just a few weeks ago we were together in Meridian, where we had a good hearing discussing the problems of the poultry industry.

Senator COCHRAN. We appreciate so much your being down there, too. We had a lot of good comments regarding your willingness to come down there with Dr. Hayes of the Food and Drug Administration. Again, I want to thank you for being there and for the fine way in which the hearing proceeded.

Dr. HOUSTON. Thank you very much.

BUDGET REQUEST

Mr. Chairman, the budget presented to this committee for consideration proposes an appropriation of $319.88 million. This is an increase of $11.65 million over the fiscal year 1982 appropriation and reflects several costs which are not included in the 1982 amount.

First, there is $12.03 million for the fiscal year 1983 costs of the October 1981, Federal pay raise. Second, it includes $3.1 million to provide for the assumption of several State inspection programs which were not funded by their own State legislatures. This includes the States of Arkansas, Idaho, Rhode Island, Michigan, and the Talmadge-Aiken program in South Carolina.

Next, there is $2.1 million for helping the remaining State programs meet increased personnel and operating costs in those programs. This represents a 7-percent increase for the State grants account.

There is $4.77 million for implementation of an improved residue avoidance program initiated in 1982. This would bring the funding level to the amount originally approved by the subcommittee.

As you can see, these actual increases of $22 million represent nearly double the increase we are requesting. Planned program improvements will offset the remaining $10.36 million.

These decreases include a reduction of $3.26 million and 155 staff years in our projected needs for slaughter inspection. The reduction has been made possible by the development of more efficient swine and cattle post-mortem inspection procedures.

The Administration has submitted to the House and Senate of the Congress a legislative proposal that would give the Secretary of

Agriculture greater discretionary authority in deciding the intensity and level of inspection to be used in the further processing of meat and poultry products. It is based on taking advantage of improved technology and modern methods of monitoring processed food operations. The proposal offers the opportunity for significant long-term savings as well as immediate cost reductions in 1983. During the first year we expect to save $2 million.

We are proposing to close all of the 27 area offices of the meat and poultry inspection program, with all field direction coming from our five regional offices. The area offices are no longer needed. They were established to administer the rapid growth of Federal and State inspection programs following the amendments of 1967 and 1968. Closing the area offices will save the agency $1.6 million.

Finally, we are including a decrease of $3.48 million to be achieved by streamlining our training activities and cutting back on headquarters staff.

Mr. Chairman, this summarizes our 1983 budget proposal. My statement, which has been submitted for the record, covers a number of other issues related to our program mission. At this time, we would be happy to answer any questions you may have.

RESIDUE PROGRAM

Senator **Cochran**. Thank you very much, Dr. Houston. In our report last year, we directed that USDA develop residue policies similar to those of the Food and Drug Administration, and on January 25, I wrote to you regarding what USDA was doing to coordinate its residue program with the policies of the FDA residue program. There is nothing more frustrating to people having to deal with the government with one agency telling them one thing and another agency another. That happens. I am not saying it has happened here, but to me it makes sense to coordinate government policies between agencies when you can do that. You responded to my letter on February 22, and I am left with a little bit of confusion.

For example, you are requesting money to develop data regarding the normal distribution of residues within a herd when the drug or pesticide is used properly. My earlier thought was FDA or the drug companies did those tests before a drug was approved. Maybe you can clarify that for me, or maybe I misunderstand what you are saying in that response.

Just for the record, we will put copies of those letters—my letter of January 25 and your letter of February 22—in the record, so we will know what we are talking about.

[The letters follow:]

LETTER FROM SENATOR THAD COCHRAN

January 25, 1982

Dr. Donald L. Houston
Administrator
Food Safety and Inspection Service
U. S. Department of Agriculture
Room 332-E, Administration Building
14 and Independence Avenue, S.W.
Washington, D. C. 20250

Dear Dr. Houston:

I am enclosing the National Residue Program language which appears in the Senate Appropriations Committee report for the Food Safety and Inspection Service (FSIS) which accompanies H. R. 4119.

I am aware of the continuing concern surrounding residue sampling methodology and the intensity of sampling presently used at the U. S. Department of Agriculture. I would appreciate being made aware of the intentions of FSIS to consider implementing the recommended changes in the National Residue Program as stated in Senate Report No. 97-248.

Thank you for your cooperation in this regard.

Sincerely,

Thad Cochran
Chairman
Subcommittee on
Agriculture, Rural
Development, and Related
Agencies

Enclosure: (Report No. 97-248)

LETTER FROM DONALD L. HOUSTON

Honorable Thad Cochran
Chairman, Subcommittee on Agriculture,
  Rural Development, and Related Agencies
Committee on Appropriations
United States Senate
Washington, DC 20510

FEB 24 3 02 PM '82

Dear Mr. Chairman:

Thank you for your January 25 letter concerning the Food Safety and Inspection Service (FSIS) National Residue Program. We appreciate your continued interest in the residue program, as well as the suggestions of your committee. As you know, the program is being modified to meet the current needs of the agricultural community. Based on discussions with the Extension Service, industry and commodity groups, we are realigning the residue program to increase the emphasis on prevention or avoidance.

Our new approach--total residue avoidance--will focus on expanded and more accurate residue detection through the development of new analytical techniques and increased sampling and on the intensified education of FSIS employees and, most importantly, producers. This approach entails a combined industry-government effort. Industry's knowledge of production management practices would be combined with our knowledge of how residue problems occur.

FSIS is planning to increase the numbers of chemicals or drugs included in its residue program because of the current lack of breadth to the program. This shortcoming has been pointed out to us in the GAO Report 97-192 and has been emphasized in congressional hearings over the past several years. There are approximately 500 pesticides and drugs approved for use in agriculture, which theoretically could result in tissue residues, and, in addition, several industrial chemicals have already been identified in the environment. We have looked at the approved uses and chemical characteristics of the identified compounds; over 100 of these have a reasonable chance of being present in the meat and poultry supply.

As the number of available analytical methods is increased, through development of new analytical methods by governments or industry scientists, we will add these compounds to our monitoring program. This will be done by substituting a new compound for one already in the program which has proven to be no problem. Thus, the total number of samples collected for regulatory monitoring purposes will remain at about the same level. However, the total number of samples analyzed will increase as a result of our emphasis on the preventative and educational aspects of residue control. These samples will be collected as part of a cooperative program with producer groups to assure sound recommendations on residue management practices. For example, there is little data available on the normal distribution of residues within a herd when the drug or pesticide is used properly. This data is important to the producer because it can tell him how close animals within the herd are to a residue violation. This information would also allow the Food and Drug Administration (FDA) to make a more accurate estimate of any consumer exposure to tissue residues resulting from the approved use.

The need for any kind of increased testing must be considered with respect to the program objectives. It must be an integrated cooperative effort among industry, extension services, and the regulatory agencies. Through this cooperative effort, the data from increased testing may be used by the producer to design individual management programs to avoid unacceptable levels of residues. The incidence of violative residues can be lowered by an effective education program. This has been demonstrated by the results of the Department of Agriculture's (USDA) education program on the use of sulfamethazine--a medication commonly used by pork producers. The tolerance for sulfa residues in swine tissue is 0.1 parts per million. Twenty percent of hogs tested three to four years ago were over the tolerance level. After an intensive educational effort by USDA, however, the sulfa violation rate has dropped strikingly.

We have received favorable comments and helpful suggestions on the new residue avoidance approach from every industry group contacted. These groups include the National Broiler Council, the National Turkey Federation, the National Pork Producers Council, the National Milk Producers Federation, the National Cattlemen's Association, and the Animal Health Institute. We have asked for the cooperation of FDA, and this Department's Extension Service will be the lead agency in the program. Ultimately, the information developed will be used at the farm level, because one of the primary purposes of this program is producer education. Also, the institution of on-the-farm trials to determine drug distribution patterns accurately in herds and flocks will be mutually advantageous to both producers and FSIS.

FSIS is working closely with FDA's Bureau of Foods to learn the basis on which tolerances are established for drugs used in agriculture. In addition, our objective is to have a sampling policy consistent with FDA's enforcement of the Food, Drug, and Cosmetics Act. The principles used in enforcement will be based on a well-conceived statistical sampling program. Both FSIS and FDA scientists agree that this approach should permit equitable enforcement by both agencies.

Although similar information is gathered by FDA and FSIS, it is tailored to the needs of each agency. Reports of findings are exchanged regularly to minimize duplication of effort. Evaluation of the information gathered in the FSIS National Residue Program enables FDA and the Environmental Protection Agency (EPA) to determine how well their prior approval systems for drug and pesticide use are functioning. If our information shows an increase in residue violations, FDA and EPA can begin surveillance activities. Our information is also used by the Extension Service, commodity groups and the drug industry to alert their constituents to the careful use of drugs and pesticides.

Future analytical efforts will be aimed at improving residue avoidance through increased knowledge and on-the-farm application of proved procedures. We will add compounds to the program to determine if they are cause for concern. Multiple detection methods will be used to reduce expenses while showing where problems exist. With the advice of industry groups, we can determine the biological distribution of a residue (profile) in a herd or flock from typical use patterns for currently marketed compounds. We can then work with FDA and EPA to assure that tolerances are rational and applicable to actual farm use.

We are confident that FSIS and the Extension Service will be successful in designing management models and determining critical points that include residue avoidance as part of the overall educational scheme. Ultimately, industry will benefit from improved production methods and consumers will benefit from enhanced protection.

We hope this information is useful. If we can be of further assistance, please let us know.

Sincerely,

Donald L. Houston
Administrator

RESIDUE LEVELS IN ANIMALS AND BIRDS

Dr. Houston. Many of the policies regarding the disposition of tissues that contain violative levels of residues were developed many, many years ago, some back even as late as the forties and fifties. Many of our agricultural practices have changed since then, and those policies are no longer commensurate with today's practices. We are trying to develop information, so that we can make determinations on average levels of residues in either flocks of birds or herds of animals and achieve a policy that is consistent with FDA. They use that approach when making a determination, for example, of a residue level in fruits and vegetables, car lots of corn, and so forth. We have active discussions underway, in fact this week, I believe, with FDA so that these policies will be consistent. We have not yet achieved that, but we have met the intent of your concern which was expressed in last year's hearings and in your letter. We are working with FDA to meet that goal.

Senator Cochran. Do you feel that you are engaged in studies and tests that should be done by the Food and Drug Administration or that fall within its legal authority rather than yours?

Dr. Houston. No, I don't believe so. We still have the responsibility for making determinations with respect to adulteration of meat and poultry products. We are trying to develop information that will enable us to make better decisions in that area. I am concerned that if we let the status quo remain, we are going to continue to have problems in the future in which the industry might be subjected to very strong regulatory controls. We could have the same problems we have encountered in the past where serious outbreaks of chemical contamination have occurred with significant monetary losses to the industry. We are trying to obtain information, so we can make determinations on herds or flocks of animals and birds, and perhaps, hold down some of the costs and damage that have occurred in the past.

We also, and I would like to highlight, are putting a great deal of money this committee appropriated last year for residue avoidance into grass-roots education of farmers and ranchers in how to use chemicals in a way to avoid food contamination. A large amount of money is going into that educational effort.

RESIDUE CONTROL

Senator Cochran. We do notice there is an increased request for control of chemical residues. You have asked for a $4.8 million increase over last year. That seems to be a substantial increase in that area.

Dr. Houston. We originally asked last year for an increase of about $8.2 million, and eventually the Congress appropriated $3.2 million. I might add the original amount was approved by this subcommittee, as well as the subcommittee in the House, but later there were some reductions. Since that amount had originally been approved, we asked for restoration this year, and the amount was placed back into the 1983 request.

Senator Cochran. Will most of that increase be used for the educational program with farmers and ranchers?

Dr. Houston. A large amount of it will be used for that purpose. We will also be doing the investigative work that was described in the letter we sent to your office.

Mr. McMillan. If I might interrupt, Mr. Chairman. I think the education process is vital in this matter. The producers, whether they are producing poultry or red meat animals, have to do a better job of using these agricultural chemicals. By doing so, they would greatly contribute to cutting down on chemical residues in meat and poultry products. The education program is an absolute necessity and a vital part of the total residue control efforts.

Senator Cochran. Thank you, Mr. Secretary.

Senator Andrews also has furnished me some questions concerning this same subject matter, and with your permission we will simply submit those questions to you in writing and ask you to respond for the record.

[Clerk's note.—Additional questions and answers appear on pages 722-725.]

SODIUM

Senator Cochran. I notice there is a part of your statement dealing with sodium. We had Dr. Hayes, Commissioner of the Food and Drug Administration, before the subcommittee the other day, and we had a lengthy dialogue about his ideas and the efforts that were being made to more fully acquaint consumers with sodium content in foods and labeling suggestions that have been discussed. We know that he has put into the Federal Register a proposal for a better way to communicate that information. How does your authority and responsibility mix with that of the Food and Drug Administration?

Here is another example. We have talked about chemical residues, and sodium is probably related to that problem. Do you see your role as one of providing information to the public, or do you feel a responsibility to get into the labeling business, too, in terms of the raw meats and products? How do you mix with the Food and Drug Administration in that area?

Dr. Houston. We have a parallel, but not duplicative role with FDA in this area. Our role is limited to meat and poultry products, whether fresh or processed, and FDA programs will cover all other food products which are under its jurisdiction. We are working very closely with FDA in the sodium labeling area. However, we do operate different programs in determining rules and regulations surrounding labeling practices. We, for example, have what is called a prior label approval program for meat and poultry products. The Department assesses labels against standards before a label is put on a meat or poultry product. The Food and Drug Administration has much more extensive labeling regulations than we do; however, the industry must comply with those labels, and FDA follows up with compliance programs at the retail level.

We have worked with FDA, for example, in developing a sodium information campaign for the public. We are going to be following very closely their rulemaking notice on establishing definitions for label claims regarding levels of sodium. We will probably, unless we have serious reservations, adopt the same policies. We are committed to working closely with FDA to see that we have common labeling policies across the board, so the public isn't confused when they see a claim on a box of corn flakes and another claim on a package of frankfurters.

Senator COCHRAN. Do you have any specific regulations you are proposing in this area?

Dr. HOUSTON. No, sir.

Senator COCHRAN. You are working now with industry, as I understand, to develop some voluntary practices.

Dr. HOUSTON. That is exactly right. We are encouraging them to initiate voluntary sodium labeling programs. A number have, even before this effort started. We have somewhere in the neighborhood of 40 or 50 companies that are now providing sodium information on labels at this point, and upward in the area of 1,500-plus labels that carry this kind of information.

FIELD OFFICE CLOSINGS

Senator COCHRAN. We notice in the budget request that you plan to close a number of field offices. Is that going to have an adverse impact on the ability of your office to do the job required of you by law? What will the practical impact of those closings be?

Dr. HOUSTON. No, sir. We intend to close all 27 area offices and the responsibilities will be moved to our 5 regional offices. Those offices were set up in the early seventies following passage of the amendments to the Inspection Acts, and where we had to provide technical assistance to the States in developing inspection programs. They were necessary at that time, because many of the States did not have the expertise or wherewithal to develop those programs. That need no longer exists. We believe we can manage the program just as effectively if we close those offices and move the responsibilities, as I say, to our five regional offices. However, we have placed this proposal in the budget to be sure that Congress is aware of our intentions.

Senator COCHRAN. We appreciate having that information. I am told that one of the offices is in Jackson, Miss. Will that mean there will be any less inspection in that area?

Dr. HOUSTON. No, sir. Our principal system of supervision will still remain where it is, at the circuit supervisory level. We have 200 circuit supervisors in the United States who travel to the plants supervising the inspectors in charge of each plant. That system of supervision will not change. What will change is that circuit supervisors in Mississippi will no longer report to the office in Jackson; they will report instead to the Atlanta, Ga., office.

Senator COCHRAN. Will there be any people dismissed, RIFed, or fired in Mississippi, because the office is closed?

Dr. HOUSTON. We have about 160 positions in those 27 area offices, and we intend to relocate about 80 of those positions to the regional offices. There won't be 80 people involved, because some of those positions are unfilled. I would suggest that across the United States there might be 50 people who could be impacted; we would have to find them other jobs or do our best to get them relocated.

PROPOSED LEGISLATION

Senator **Cochran.** You mentioned legislation that has been proposed by the administration with respect to giving the Secretary more flexibility with respect to processing inspections.

Dr. **Houston.** Yes, sir.

Senator **Cochran.** Has that legislation been referred to the Agriculture Committee, or do you know where the jurisdiction for that lies?

Dr. **Houston.** We have sent that bill to the House and to the Senate. Secretary Block did that about 3 weeks ago. Mr. McMillan and I have been in discussion with leaders of the House and Senate. We expect the bill to be introduced next week.

Senator **Cochran.** So it hasn't been introduced yet.

Mr. **McMillan.** The authorizing committee would be the Senate Committee on Agriculture.

CHEMICAL RESIDUES

Senator **Cochran.** I see.

Your budget request is a little more than last year. Some of that increase, of course, will be used to educate farmers, ranchers, and producers in how to deal with problems relating to chemical residues. Do you feel you will be able to do the jobs required of you by law at this level of funding?

Dr. **Houston.** Yes, sir, I believe this is an adequate budget. I would also mention that $2.1 million of that increase is to help the States maintain their intrastate inspection programs. We are deeply concerned that they maintain those programs. If they don't, under the law, we have to provide inspection in those intrastate plants.

MEAT GRADING

Senator **Cochran.** Is there anything in the budget specifically targeted for implementing any regulations to change the labeling of meat in terms of prime and choice? Isn't that in your jurisdiction?

Dr. **Houston.** No, sir; that program is administered by the Agricultural Marketing Service, AMS.

Senator **Cochran.** Are you involved in that to any extent?

Mr. **McMillan.** Dr. Houston's agency isn't. The Agricultural Marketing Service, which also reports to my office, is due to testify before your committee on March 30.

Senator **Cochran.** I know there is a lot of controversy about that. I haven't asked you anything controversial, and I wanted to ask you that. We are all for safe food and healthy food.

We appreciate your being before the committee and the way you have cooperated with us in the past. We look forward to working with you on this budget request. Thank you very much.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing, but were submitted to the Food Safety and Inspection Service for response subsequent to the hearing:]

FOOD SAFETY AND INSPECTION SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

STATE INSPECTION PROGRAMS

Question: In this Committee's report accompanying the fiscal year 1982 appropriations bill, we expressed our concern over the growing trend of states to return inspection responsibilities to the Federal Government. We directed the agency to evaluate its inspection activity to assess whether there might be any legislative or administrative changes that could possibly reverse this trend. Was such an evaluation made, and, if so, what are the results?

Answer: The Agency has reviewed the continued loss of State inspection programs. One alternative, increasing grants assistance above the current 50 percent, was not pursued because of the priority of reducing the USDA budget. In order to strengthen the State programs and generate local support for them, however, we met with officials of the National Association of State Departments of Agriculture (NASDA) and agreed to support amendments to the Federal inspection acts which would allow State-inspected product to move in interstate commerce under the State inspection brands. State-inspected product, however, would not be eligible for export. This remaining restriction is necessary to support the current U.S. requirement that imported product be inspected in the foreign country by a nationally organized inspection system. We do not permit import of product inspected under state or provincial systems. The legislative proposal was introduced in the House by Representative William Wampler (R-VA).

Question: How many states have not done anything with their programs?

Answer: Twenty-seven States continue to maintain State inspection programs for intrastate establishments. While South Carolina and Vermont considered program elimination, they have decided to fund their programs for the present time.

Question: Do you anticipate more drop-outs this year?

Answer: There are no States that have indicated plans to terminate their programs this year, although this situation can change rather suddenly. A short time ago FSIS began proceedings to designate the State program of South Carolina after representatives of the governor notified us that funding for their program would not be available this year. South Carolina later reconsidered that action and will continue their program in 1982.

The Vermont legislature also debated the issue of program funding and has decided to continue their program in 1982.

BUDGET REQUEST

Question: The Food Safety and Inspection Service is one of the relatively few USDA agencies requesting an increase over fiscal year 1982 funding. How do you justify the request for an $11.6 million increase over this current fiscal year, and how do you plan to spend this additional money?

Answer: The increase for 1983 is the result of deleting the impact of the October 1981 pay raise from the 1982 budget totals. The annual cost of that pay raise will be about $12.0 million in 1982 and 1983. However, only the 1983 budget request includes full funding of those costs while the Administration is considering a 1982 supplemental proposal. There are several other increases proposed in the 1983 request but they are more than offset by savings expected from planned program improvements. An increase of $3.1 million is needed to provide for the Federal assumption of the inspection programs of Arkansas, Idaho, Michigan, and Rhode Island, as well as the South Carolina Talmadge-Aiken program. $2.1 million is needed to help the remaining States meet the increased personnel and operating costs of their programs. The final increase request of $4.8 million is to restore the residue program to the level originally approved last year by this Committee and both Houses of Congress, but which had to be partially deferred because of a $4.8 million reduction in our appropriation prior to enactment. These increases of $10.0 million are to be offset by savings from program and management changes that include: $3.3 million from the use of more efficient slaughter inspection techniques, $3.3 million from closing 27 area offices which are no longer needed, closing the training center in Fort Worth, Texas, and from eliminating assistant circuit supervisor positions; $1.8 million from the streamlining of headquarters staff; and finally, $2.0 million from proposed legislation to enable the Secretary to allow less than continuous inspection in processing plants.

Question: Is this funding adequate for you to ensure the public is receiving safe, nutritious, wholesome food?

Answer: Yes, this appropriation will be sufficient to ensure a safe, nutritious, and wholesome meat and poultry supply, provided that the legislation for discretionary processing inspection is enacted.

Question: What was the level of your budget request originally submitted to the Office of Management and Budget?

Answer: The budget we originally submitted to OMB was for $320,068,000, which was reduced by $192,000 to reflect a reduction in planned audiovisual products and pamphlets.

Question: I notice you have budgeted $12 million for restoration of pay costs that went into effect last year. Are you not having to absorb any of the pay raise, as other agencies are?

Answer: It will require $12 million to pay the 1982 cost of the October 1981 pay raise. The Office of Management and Budget is now considering our request for a supplemental budget proposal and has not yet decided the funding level to be requested. For 1983 we are requesting the full amount of the pay raise to assure adequate funding for mandatory inspection.

RESIDUE CONTROL

Question: Last year in your request, you asked for an $8.2 million increase for control of chemical residues. This year, you are again requesting an increase -- this time of $4.8 million. Why is there another substantial increase in this area?

Answer: Last year both the House and Senate originally approved an $8.0 million increase for the FSIS residue program; however, subsequent enactment action reduced our appropriation by $4.8 million which is being absorbed by deferring much of the improvements in residue control. For 1983, the Agency is requesting funds to restore the residue program to the level that this committee approved last year.

IMPROVED INSPECTION PROCEDURES

Question: In your Explanatory Notes accompanying your request, you indicate plans to save $3.3 million through improved inspection procedures. What will this involve?

Answer: Late in fiscal year 1981 we announced revised procedures for inspection of swine after slaughter. Associated with these changes is a 1983 full-year savings of 110 staff years and about $2.3 million. The new swine procedures, designed for use in plants with three or more inspectors, call for the head inspectors to concentrate their examination for the most part on the head and nearby parts of the carcass; for viscera inspectors to spend more time observing and less time palpating organs; and for the carcass inspector to have the aid of a mirror for observing the backs of the carcasses. Industry costs, primarily for installation of the mirror, amount to about $1,000 per plant.

Our 1983 budget also anticipates introduction of the revised cattle procedures, with a 1983 saving of about $1 million. In February 1982, FSIS completed its last test of the procedures. The new procedures would apply chiefly to the 50-100 large, high speed cattle slaughter plants. Under the new procedures, the responsibility of the rail inspector for disease inspection will be transferred to the viscera inspection station. Inspection for dressing defects, acknowledged to be a management responsibility but formerly carried out by the rail inspector, will be turned over to plant employees. To verify trimming of dressing defects, improved procedures for carcass acceptable quality level testing are being considered. At the viscera table, observation of organs would replace some current palpation and incision requirements. Some changes in plant facilities would be needed: a large mirror and, if necessary, improved lighting at the carcass inspection station to simplify the inspector's task at that station; and in a few cases, the mechanical viscera table may have to be lengthened. Plant costs would range from $1,000 to $10,000 for these changes.

Before new cattle procedures can be implemented, test results will undergo evaluation and approval; work-measurement of the new procedures will take place; revised staffing patterns will be completed; and a Federal Register interim rule will be written, cleared and published. All of this may be done before the end of the summer.

Question: Why haven't you implemented these practices before?

Answer: These changes are part of a continuing process of inspection improvements to take advantage of changing industry conditions, procedures, and technology. Since 1978, every one of our major activities has been streamlined at least once. Young chicken inspection was revised in 1979. During that year, a USDA-NASDA task force also recommended more efficient procedures for the State inspection programs and we began work on improvements to the import inspection program. In 1980, Total Quality Control programs for processing inspection were pilot-tested and implemented. At about the same time, improved rapid residue screening tests began to come on line. In 1981, the field structure was realigned and new swine methods introduced. New cattle, fowl, and turkey procedures have been tested and are now under evaluation and other steps to simplify broiler inspection are under study.

Some of these practices might have been implemented earlier; however, thorough review and field testing of the proposed procedures must be completed to ensure that the level of consumer protection is not adversely affected. This review and testing phase for the change in cattle procedures will not be complete for several more months.

PROPOSED LEGISLATION REGARDING SECRETARY'S DISCRETION

Question: I note that you are requesting legislation that would grant the Secretary discretion with respect to the intensity of processing inspections. With that legislation you plan to save $2 million. How will such a large savings be realized without compromising the effective processing inspection process that is in place now?

Answer: We have over 50 plants now under the voluntary Total Quality Control program, and the number of plants entering the program continues to grow at a healthy rate. These will be prime candidates for immediate reduction in inspection frequency.

The proposed legislation is much less of a break from past practice than it may appear. Current law requires "continuous" inspection of processing plants. In fact, that requirement is satisfied when an inspector is present for some part of each eight-hour shift. The amount of actual inspection time provided each day depends upon the public health risk associated with the products produced, the type of operation, and plant compliance.

Many processing plants must be covered by patrol assignments where a single inspector is responsible for two or more plants. Experience gained over many years of patrol inspection has convinced us that many processing plants can be visited less often than once a day while still producing safe, wholesome, properly labeled product.

The proposed legislation essentially removes the requirement for daily inspection and would substitute an inspectional frequency based on need. To be specific, the frequency of inspection would be based on product risk, plant quality assurance systems, and plant compliance history. Inspection of even the best-performing plants would not be discontinued under the proposal. Inspectors would be there to check plant operations as often as is necessary to assure compliance with our regulations. Sampling of processed product for laboratory analysis would continue as before. If in-plant problems apparent to the inspector, or the results of laboratory analysis, or some other reason warrants resumption of daily inspection, FSIS will do so.

Question: What assurances can you give the committee that you will not be implementing a lesser standard of inspection?

Answer: The standards that we have established to assure product wholesomeness will not be changed. The legislative proposal will only vary the frequency with which we visit the plants to verify their conformance to the standard. Our experience with plants under the Total Quality Control inspection program has demonstrated that we can, with proper controls, reduce our inspection coverage and still maintain the same level of product safety and wholesomeness.

FIELD OFFICE CLOSINGS

Question: I notice also that you plan to achieve $3.3 million in savings by closing selected field offices, including all 27 area offices. What is the rationale behind these closings?

Answer: FSIS plans to close its 27 area offices in FY 1983 and transfer the functions of these offices to the five regional offices. There are a number of reasons for taking this action. First is the changed need for a more responsive field structure. The present area office field structure was originated in 1972 largely to provide assistance to the States participating in the Grants to States program. The area offices are no longer required to provide day-to-day assistance to State governments in bringing their inspection programs up to a level equal to the Federal program. The number of State programs has decreased to about one-half the original number, and the remaining programs are functioning smoothly.

The remainder of the $3.3 million will be saved by closing the Fort Worth training center and conducting future training at locations closer to the inspectors' duty stations, and by eliminating the assistant circuit supervisor positions which are no longer needed.

Question: Will there be any significant risk of a poorer inspection process as a result?

Answer: I do not believe so. The closings do not affect in-plant inspectors nor their direct line supervisors.

Question: The Subcommittee has heard from employees of yours in the field who say the area offices are still needed for local liaison and to assist with emergency situations. What is your response?

Answer: I would like to respond to each of these claims individually. First of all, the existing area offices do not provide us with a level of local liaison that cannot be equalled by the regional offices under the proposed field structure. The steps the Agency will take to solve local problems will not be changed. The system of 200 circuit supervisors supervising the inspectors-in-charge at each plant will not be changed either. The change is in the location to which the circuit supervisors report. FSIS will also be able to maintain satisfactory contact with State inspection program officials because there are fewer of these programs today and they are operating smoothly.

We do not believe the announced fear that the Agency's proposed field structure may hamper our ability to respond to emergency situations is justified. For residue contamination emergencies we have an established field-based Contamination Response System which has successfully responded to over 100 contamination incidents since 1980. The actions taken by the contamination response staff will not be affected by the closing of the area offices. The Agency response mechanism for other types of emergencies will not be changed under the revised field structure either. We will maintain our nationwide network of compliance officers who will trace and respond to emergency situations just as they have in the past.

Question: Among these closings will be the Jackson, Mississippi, area office. What will be the personnel impact of these closings? How many positions will be eliminated or moved? What will be the impact in Jackson?

Answer: Although there are five positions, only three persons are at present officially assigned to the Jackson, Mississippi area office; the area supervisor, a program assistant serving on a temporary assignment, and a clerk. At least two of these three people will be able to retain positions with FSIS. The area supervisor position will be relocated to the Atlanta, Georgia regional office and the veterinarian (Area Supervisor) who presently occupies the position will be able to move to Atlanta or take another position in the Agency. The present incumbent of the program assistant position will return to his permanent position of food inspector. The clerical position will be abolished; however, it is the policy of the Agency to reassign employees to vacant positions at their same series and grade in lieu of having a RIF. If the incumbent is unable to accept such an offer, appropriate placement assistance will be rendered by the Agency to this employee.

The slaughter and processing plants in Jackson will continue to be served by the same inspectors and circuit supervisors who now cover this area. The only change in the inspection supervisory structure will be the movement of the Area Supervisor position to Atlanta where the incumbent will continue to be the principal officer for the Jackson area.

FOOD SAFETY AND INSPECTION SERVICE
FOOD AND DRUG ADMINISTRATION RESPONSIBILITIES

Question: In the past, you have indicated that healthy cooperation exists between the Food Safety and Inspection Service and the Food and Drug Administration with regard to your respective missions and shared responsibilities. Does that cooperation continue to exist?

Answer: Yes, FDA is regularly informed of our findings and their traceback efforts are essential in determining the causes of residue violations. We are working closely with FDA to assure that we are fully coordinated on matters such as sodium labeling and on the general issues surrounding food safety legislative proposals.

Question: Have there been any changes in your working relationship in the last year?

Answer: There have been only evolutionary improvements in the working relationship between our agencies through more frequent discussions and data sharing by program personnel. Potential problem areas are being discussed at early stages.

During the past year, specifically, we worked closely with FDA in handling an incident in which carcasses in a large Kansas slaughterhouse were contaminated with an organic solvent. We assisted FDA in improving its control measures in the feed mills and renderers producing animal feed. And, the two agencies worked closely together in an effort to help control the misuse of sulfa administered to veal calves.

VOLUNTARY QUALITY CONTROL PROGRAMS

Question: Federal Government efforts to regulate the safety and wholesomeness of the U.S. food supply rely ultimately on the capacity and willingness of the food industry to regulate itself. The Meat and Poultry Inspection Acts place responsibility for processing food under sanitary conditions and for producing wholesome products squarely on manufacturers. Some manufacturers have been slow to accept their responsibility, making Government regulatory efforts more difficult.

In assessing USDA meat and poultry processing inspection program operations, in 1977, the General Accounting Office evaluated 24 plants and found that in 18 plants, plant management had fully accepted its responsibility for producing wholesome, unadulterated products, while in six plants, plant managers had not. Those six plants (1) relied on the USDA inspector for quality control; (2) would only do what the inspector required in maintaining proper sanitary conditions; and (3) did not maintain a good history of plant compliance with inspection requirements.

USDA, in September 1980, began introducing voluntary quality control programs at meat and poultry processor plants, on a test basis. However, it is not unreasonable to expect that some manufacturers will continue to perform the minimum quality assurance necessary to stay in business.

What is the Food Safety and Inspection Service doing to encourage meat and poultry processors to accept their full responsibility for producing wholesome, unadulterated, and properly labeled and packaged products?

Answer: New inspection procedures are being developed and existing inspection procedures are being updated to promote active and full participation by the plants in the inspection process. The quality control programs require participating processing plants to accept greater responsibility for producing products in compliance with requirements, which are tailored to the individual plant's characteristics. In order to promote participation by more firms in quality control programs this year, Regional Directors will contact each processing plant in their region to encourage participation in our voluntary Total Quality Control program (TQC).

We are also providing counsel, advice and assistance to plants initiating TQC systems. Special efforts are directed toward small plants in need of assistance. Presently, there are 54 plants operating under approved TQC systems and another 26 are in the approval process. We are continuing to encourage plants to submit plans for voluntary partial quality control programs, and currently, we have over 2,000 approved voluntary partial Quality Control programs in approximately 700 plants.

Meetings with inspection personnel are being held to discuss the enforcement tools available to inspectors to maintain plant compliance. These tools are being emphasized in light of the plant operators' obligation and responsibility to produce wholesome, unadulterated, and properly labeled and packaged products.

Conversely, as a means to discourage non-compliance, those plants that operate at a marginal level of compliance or are identified as operating with recurring deficiencies are being handled in accordance with the revised instructions for plants needing additional attention issued to inspectors in December 1981. Plants not responding to the preliminary actions taken under the provisions of this directive will become subject to enforcement actions originating at the regional and then the national headquarters, up to suspension or withdrawal of federal inspection.

Question: In the absence of civil penalties, what enforcement alternatives has the Food Safety and Inspection Service employed to provide financial disincentives to chronic problem plants?

Answer: While we do not have authority to impose civil penalties, we do have available to us a wide range of enforcement alternatives which serve as rather substantial financial disincentives to wrong-doing. The program can suspend operations or restrict the use of unacceptable areas, ingredients or equipment within a plant, and can retain or require condemnation or destruction of violative products. We can also withdraw inspection from establishments which are either unable or unwilling to meet Federal requirements. Criminal prosecutions or civil injunctions may also be employed. All of these can result in substantial financial disincentives and are generally effective in bringing problem plants into compliance with federal requirements.

Question: How effective has the Food Safety and Inspection Service been in obtaining sustained corrective action in plants with poor quality histories?

Answer: Over the years, our plant reviews have shown that 85% of plants adequately meet requirements of the law, another ten percent of plants are marginal and in need of corrective actions, and five percent are unacceptable and require immediate and strong corrective action.

Our findings show that the make-up of the group of plants with major deficiencies is constantly changing due to the effectiveness of corrective measures. While inspection officials work hard to minimize deficiencies, they must deal with a wide range of attitudes, human motivations, physical layouts, environmental factors, and business practices. Despite these complexities, program officials have had little difficulty in bringing individual plants into compliance once the deficiencies are identified.

FEDERAL INSPECTION AT SLAUGHTER PLANTS

Question: In 1981, the General Accounting Office found that 24.9 percent of meat and poultry slaughtered under USDA inspection at plants within six states reviewed came from plants not meeting one or more USDA inspection program requirements. (CED-81-118, July 30, 1981.) Defects in plant procedures included sanitation problems, inadequate pest control, unacceptable water supplies, and problems in control over condemned and inedible products.

The report underscored instances of excessive plant reliance on USDA inspectors to police sanitation. Plant managers were not sufficiently committed to maintaining a high level of sanitation. The General Accounting Office concluded problems such as flaking paint and rust, scale buildup, dirty overhead structures, and grease buildup indicated more long term neglect than simply inadequate cleanup from the prior day's work.

The General Accounting Office recommended USDA develop a system of financial disincentives for slaughter plant managers who evidenced poor attitudes about good sanitation, including financial penalties requiring additional legal authority. The Department disagreed with the recommendation to develop a system of financial disincentives for plants not complying with inspection requirements. It said that current legal authorities, including inspection withdrawal, are sufficient to correct sanitation problems.

The General Accounting Office also concluded the Food Safety and Inspection Service needs to have its inspectors and supervisors adopt a stronger enforcement attitude. Inspection withdrawal may be employed when a plant has been found to produce adulterated products due to insanitary plant conditions, or where plant management fails to destroy condemned products. Inspection withdrawal hurts plants economically, because it prevents production and shipping of products.

The General Accounting Office also found that Food Safety and Inspection Service slaughter plant inspectors and supervisors were not always effective in obtaining corrective action. They recommended the Administrator of the Food Safety and Inspection Service should emphasize the importance of taking effective actions to bring plants up to acceptable compliance levels.

What has the Food Safety and Inspection Service done to more rigorously enforce inspection program requirements in meat and poultry slaughter plants?

Answer: In addition to continuing the use of the regulatory tools provided to us by the Acts, we have increased the use of work-unit meetings between inspectors and supervisors to enhance awareness of sanitation procedures, inspection authorities, and record-keeping responsibilities. We have renewed emphasis on sanitation controls in reviews conducted by a staff reporting directly to the FSIS Administrator. We are developing a new establishment review and evaluation system for use by supervisors in conducting plant and inspection reviews, and to assist in documentation of sanitation deficiencies. This system will be used by program supervisors to determine program effectiveness. Supervisors will be provided with forms which include specific, objective criteria and a revised rating system. Reports will clearly and specifically document the results of plant reviews. We have implemented a field realignment designed to improve communication and supervision of in-plant inspectors and supervisors. We are in the process of updating performance standards and developing more refined self-instuctional training guides and audiovisual programs which detail inspection requirements and procedures on antemortem and edible and inedible products inspection and control. Finally, on December 10, 1981 we issued a revised directive, that updates FSIS policies and procedures governing plants with poor compliance histories. We now require in-plant inspectors to document plant deficiencies and report them to their supervisors. In cases of plant failure to comply with inspection requirements, regional headquarters will warn the plants, schedule more frequent reviews, and assign added inspectors as needed. In cases of sustained non-compliance, Washington headquarters will be notified so that, if deficiencies are not corrected, steps to withdraw the grant of inspection may be taken.

Question: What financial disincentives are used currently that will deter repetitive plant violations?

Answer: Inspectors may withhold inspection until problems are corrected. They may condemn products adulterated by insanitary conditions, and if a plant continues to fail to meet requirements, the administrator may withdraw inspection and prohibit the plant from shipping meat and poultry products in commerce and/or seek resolution in the courts.

During the past year over one hundred prosecutions against violators of meat and poultry laws were initiated, many for sanitation-related adulteration problems. We intend to continue taking strong enforcement actions, particularly in cases involving sanitation problems.

Question: How has the Food Safety and Inspection Service approached achieving sustained corrective actions in plants with poor quality histories?

Answer: We are emphasizing documentation of those actions taken to provide a basis for suspension or withdrawal of inspection. These documented actions include determining the deficiencies in the establishment; determining the causes of the deficiencies and the conditions that allowed them to exist; noting the actions taken to correct the deficiencies; and reviewing the results of the corrective actions. If, after all these steps, the establishment is still not in compliance, we will consider taking legal action.

Question: This same General Accounting Office report also pointed to problems with the Food Safety and Inspection Service understaffing in slaughter plants -- 7 percent of FSIS authorized slaughter inspector positions were vacant. What has the Food Safety and Inspection Service done to alleviate the effects of slaughter plant staffing shortfalls?

Answer: The seven percent vacancy rate in slaughter plants consists of all inplant positions, including those both on and off the slaughter lines. The Agency provides coverage to all on-line slaughter inspection positions, which are critical to the safeguarding of product wholesomeness. We cover vacancies in these critical on-line positions in a number of ways. One practice is to detail to slaughter operations other employees including: those performing duties in allied departments who are not normally on the line; veterinarians, who are normally providing supervision to line inspectors and who must defer supervisory observation of inspection activities in order to carry out line inspection; and other inspection employees whose normal assignments have been suspended because of plant shut-downs for lack of animals or birds, renovation, strikes, and so on. Intermittent employees are also called upon to cover regular inspection positions as needed.

RESIDUE PROGRAM

Question: In 1979, the General Accounting Office found that 14 percent of the meat and poultry sampled by USDA for toxic residues of animal drugs, pesticides, or environmental contaminants during the years 1974 to 1976 contained illegal residues (HRD-79-10, April 17, 1979.) At the time of the General Accounting Office's review, USDA's monitoring program tested for only 46 of the 143 drugs and pesticides that were identified as likely to leave residues, and for 8 environmental contaminants of an unknown possible number. Fifty-four toxic substances thus were included in USDA's monitoring program. Each sampled animal, however, was tested for only one individual or class of residue rather than all 54. The General Accounting Office recommended USDA expand its monitoring program.

USDA agreed that its residue program should be diversified and substantially expanded, but noted it is important to remember that some compounds lack regulatory analytical methods that are feasible for routine monitoring. USDA said it is attempting to develop better methods, and that it or other concerned agencies must conduct or foster research to speed the advancement of residue analysis technology.

The General Accounting Office also found that USDA's requirement that growers with previous residue violations submit animals for pretests is easily avoided. Pretest is not currently an effective follow-up tool.

In response to our report, USDA said that it should follow up on all pretest cases, and that it planned to shift resources into that activity over the next year (1980). USDA also said it had agreed with the Food and Drug Administration and the Environmental Protection Agency to reexamine the current memoranda of understanding to strengthen enforcement procedures and avoid duplication of effort.

The General Accounting Office also found that analysis of samples for residues takes too long for effective USDA regulatory action. While raw meat and poultry are usually not held at the slaughterhouse for more than 48 hours, USDA officials estimated that it takes 6 to 25 days to complete a residue analysis. The contaminated product will usually have been marketed and consumed before USDA confirms a violation.

The General Accounting Office concluded that USDA needs to develop the capability to complete residue testing of animals at the slaughterhouse before the animal carcass is divided into wholesale cuts. It was recommended that the Secretary of Agriculture develop the capability to conduct residue analysis at the slaughterhouse and encourage expansion of private monitoring efforts.

Has the Food Safety and Inspection Service been successful in expanding its residue monitoring program?

Answer: Yes, we have expanded and improved the residue monitoring program. Today the Agency is monitoring samples for more of the compounds that are likely to occur in the meat and poultry supply than we were in 1979 and the violation rates for them have fallen significantly.

One of the areas of greatest progress has been with regard to antibiotics. We have, as GAO recommended, developed and installed an antibiotic residue testing capability at all plants which slaughter cull cows. This has resulted in a reduction in antibiotic residues in cows coming to market. We are now in the process of extending the use of this test to all federally inspected slaughter plants where its use will be beneficial, and to all livestock and poultry species. Variations of the test have been developed for sulfa drugs and for use on live animals before they are sent to slaughter. We are working with Extension Service to encourage producers to privately monitor residue levels in their livestock by using this live animal test. The banned antibiotic chloramphenicol, which can cause aplastic anemia, has been added to the list of compounds for which we are now monitoring.

Question: Have efforts to strengthen enforcement such as effective pretesting and followup decreased repeat violations by growers?

Answer: Even though FSIS does not have the authority to quarantine suspect herds or flocks or to require growers to tag their animals for grower identification, known repeat violations have seldom been a serious problem to our Agency. As soon as a producer realizes that we will hold and pretest future shipments, he makes every effort to ship acceptable animals. Furthermore, FSIS follows up violations by working with the violators on a cooperative basis to help them prevent future violations. Our most successful efforts to reduce violations have been through cooperation with the Extension Service and the appropriate industry committees in an educational effort which coincides with intensified monitoring. We have used this approach with excellent results at both the State and national levels for antibiotics in dairy cows, where violation rates have been reduced from four percent in 1978 to one percent today, and for sulfonamides in swine, where violation rates have been reduced from 14 percent to four percent in five years.

FSIS has also focused considerable attention on simple screening tests that can be performed before and at the time of slaughter. Last year we successfully field-tested and made available to farmers a simple and inexpensive swab test for antibiotics that is used to test live animals before they are sent to slaughter. This test provides farmers with a valuable management tool that helps them time drug withdrawal periods and know when to safely send livestock to market. Use of this test will also help producers avoid the costly losses caused by condemnation of animals with violative antibiotic residue levels.

Question: Is the Food Safety and Inspection Service better able to track and document repetitive grower residue violations, so that the Food and Drug Administration can develop stronger cases for taking regulatory action?

Answer: Information on repeat violations is carefully documented and the report prominently marked before being sent to the appropriate FDA district office. We also send reports of all violations to the Bureau of Veterinary Medicine for entry into their computer records. Whenever FDA begins prosecuting a residue violator, the results of our laboratory tests and appropriate FSIS personnel are available to them. The FSIS Science program also has developed, since the GAO report, an information system which maintains historical information of all reported residue violations in the United States.

Question: Is attention being paid to the need for quick and accurate residue testing methods that could be evaluated before carcasses are processed into wholesale cuts?

Answer: Yes, we have devoted a great deal of attention to the development of quick and accurate residue testing methods. The technology for on-site antibiotic testing in cattle slaughter plants was developed because of the need for a rapid test. It has proven acceptable and workable under field conditions, so we are now expanding its use to slaughter locations for other species. This swab screening procedure provides us with reliable results in less than one day, much quicker than conventional laboratory methods. To aid producers, we developed a similar swab screening test for use with the urine of live animals to allow pretesting of animals for antibiotics prior to slaughter. Another version of this same basic procedure is under development to detect sulfonamide residues. We are also trying to develop immunoassay tests for field use. These tests are not yet practical, but we believe the technology will soon be available to make them so.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

RESIDUE PROGRAM

Question: I have your February 22, 1982, letter to Senator Cochran regarding the Residue Program and if I may I'd like to ask a few questions regarding that letter. First, you cite GAO Report 97-192 as pointing up to the need to test for more substances and you state that there are "approximately 500 pesticides and drugs approved for use in agriculture, which theoretically could result in tissue residues."

I have been unable to locate any GAO Report No. 97-192. Were you perhaps referring to GAO Report HRD-79-10?

Answer: Our letter to Senator Cochran should have referred to "GAO Report HRD-79-10". We regret the mixup in the citation and appreciate your calling it to our attention.

Question: In GAO Report 79-10 there are references to "143 drugs and pesticides likely to leave residues." Why are you basing your Residue Program and budget requests on "500 pesticides and drugs approved for use in agriculture which theoretically could result in tissue residues? (The 500 estimate must include flea powder for dogs and fungicides for zinnias).

Answer: The list of 500 pesticides and drugs which we mentioned includes pre-emergence herbicides, fungicides on citrus, post-emergence herbicides, and other remotely related agricultural uses which have only a minimal possibility (in our opinion) of causing residues in meat derived from livestock and poultry. We have therefore eliminated approximately 400 compounds from the list of those which might create potential residue problems at time of slaughter. Further evaluation is needed concerning possible localized impact of these compounds before they can be completely eliminated from consideration; however, while we are aware of the possible danger associated with these chemicals, our budget request and residue program are particularly concerned with the compounds which present higher potential residue problems.

Question: In your letter to Senator Cochran you explain that the FSIS program will take the same number of samples for compliance purposes and that increased funding is necessary to take more samples for preventative and educational purposes. You give the example that: "There is little data available on the normal distribution of residues within a herd when the drug or pesticide is used properly. This data is important to the producer because it can tell how close animals within the herd are to a residue violation. This information would also allow the Food and Drug Administration to make a more accurate estimate of any consumer exposure to tissue residues resulting from the approved use."

I am a farmer and I produce cattle. Will you explain to me what I'm supposed to do with this information you are going to develop? Shouldn't I simply use FDA approved animal drugs at FDA approved levels?

Answer: The data FDA uses to establish withdrawal times are gathered under laboratory conditions and based on a very limited number of animals, usually less than 30 total. These animals are divided into three or more groups to determine residue levels at specified time intervals. Company and FDA scientists then extrapolate data points to estimate when the animals should be below the allowable tolerance limit. These estimates are intentionally conservative so that a producer following approved label use would not be expected to have a residue problem. The FSIS data is intended to complement the conclusions of the FDA scientists. By analyzing a large, randomly-selected number of samples taken from a number of herds in different locations over much longer periods of time and under good but differing management practices, we will have field data to add to the original research data. Since some animal drugs were approved many years ago when techniques, feed, animal housing and other production practices were much different than those prevailing now, current information on the effects of these drugs is needed to verify that the label directions remain valid for field conditions or indicate that modification of the label directions is needed. This approach was adopted after confronting the sulfa problem. We found that the withdrawal time was too short. However, after extending the withdrawal period, we found that the management practices played as big a part in sulfa levels as did the withdrawal time. An extended withdrawal period plus a concerted effort to educate producers on good management procedures resulted in the violation level change from 14 percent to below 4 percent.

Therefore, as a farmer applying good management practices, you could have confidence that when you use animal drugs according to label directions, your stock will be free of unacceptable levels of drug residues.

Question: Doesn't the FDA require this information of drug sponsors before drugs are approved?

Answer: No, FDA does not require the drug manufacturers to conduct tests in this depth. Collection by a private firm of the types of data required to establish withdrawal periods under a variety of actual-use conditions would be quite costly. But collection of this same data, through a coordinated effort by government and industry, using the resources which are already in place reduces the cost. Also, the usefulness of the data to the producer is improved since it was collected from animals raised under actual farm conditions.

Question: Are you suggesting that USDA is going to engage in a cyclical review of FDA approvals?

Answer: USDA does not review FDA approvals. The two agencies gather information from different sources. FDA has responsibility for approving drugs for use in livestock and poultry production. The approval process requires testing of the compounds for efficacy, for potential human health hazards, and for determining expected tissue residues under approved conditions of use. Most of this testing must be done under laboratory conditions which are carefully controlled.

USDA has the responsibility for assuring that no adulterated meat or poultry reaches the consumer after it has been produced under less strictly controlled commercial conditions. This responsibility is clearly spelled out in the Federal meat and poultry inspection laws. Evaluation of the information gathered in the FSIS National Residue program not only assists FSIS in its regulatory work but also enables FDA and the Environmental Protection Agency to determine how well their prior approval systems for drug and pesticide use are functioning.

Question: On page 2 of your February 22 letter, you refer to the success of the USDA/FDA program to reduce sulfamethazine residues and imply that the sulfa program can be a model for reducing the incidence of other residues. With sulfamethazine, there were initially 20% of samples that were over tolerance.

What residues presently present this type of widespread problem that can be solved by using the sulfamethazine model?

Answer: Although no other residue problem currently presents the violation rates once experienced in the case of the swine-sulfamethazine problem, several others are sufficiently widespread to apply a similar method of resolution. These similar problems include those of sulfonamides in turkeys and animals other than swine, and antibiotics in livestock and birds generally. The same approach used in the swine-sulfamethazine situation has already been used to reduce the antibiotic residue problem in cull dairy cows and has now been implemented to reduce the incidence of antibiotics and the misuse of sulfonamides in veal calves. We expect to extend the coverage to all applicable species of livestock and poultry. Because of the positive response we consistently receive from industry groups when we go to them with a documented problem, we believe this approach should be preferred and used when practicable on all industry wide residue problems.

Question: Also on page 2 of your letter, you state that "FSIS is working closely with FDA's Bureau of Foods to review the established tolerances for drugs used in agriculture."

Does USDA now base compliance actions and requests for recalls on composite test results, which is the way that FDA works, or does the Agency ignore composites and averages and take action on a single-sample basis?

Answer: When FDA takes composite samples they take multiple samples from large containers of food at once--for example, a bin of grain or a tank of oil--which though derived from many sources is well mixed before moving on to another step in the food chain, and normally makes up one component of a finished food product such as a loaf of bread. FSIS takes a single sample from an animal or a single composite sample of birds in a flock derived from one source to estimate the acceptance of the other animals in the herd/flock because each will retain its identity until eaten. The sampling methods of either agency, therefore, are suited to the differing types of products. Both FDA and FSIS take action based on the results of testing from a single source, with the difference that FDA will have taken perhaps five samples from that source, whereas FSIS does not always need to do so.

FSIS is at this time working closely with FDA to determine a policy that ensures product compliance with the tolerances established for drugs and chemicals used in agriculture. This coordination of effort is intended to establish the same scientific basis for compliance policy in both agencies. The principles used in enforcement will be based on a statistical sampling program to provide consumer protection without creating an unreasonable cost to the producer who is abiding by label instructions.

OFFICE OF TRANSPORTATION

AGRICULTURAL COOPERATIVE SERVICE

PACKERS AND STOCKYARDS ADMINISTRATION

STATEMENTS OF:

MARTIN F. FITZPATRICK, JR., DIRECTOR, OFFICE OF TRANSPORTATION

RANDALL E. TORGERSON, ADMINISTRATOR, AGRICULTURAL COOPERATIVE SERVICE

B. H. (BILL) JONES, ADMINISTRATOR, PACKERS AND STOCKYARDS ADMINISTRATION

ACCOMPANIED BY:

C. W. McMILLAN, ASSISTANT SECRETARY, MARKETING AND INSPECTION SERVICES

ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

INTRODUCTION OF THIRD PANEL

Senator **COCHRAN**. The third and final panel today is made up of representatives from three agencies within the Department of Agriculture. The Office of Transportation administers and coordinates the Department's various transportation programs in an effort to insure an efficient domestic and international transportation system for U.S. agricultural products. The Agricultural Cooperative Service serves as the Department's coordinating office for national activity involving cooperatives. Its purpose is to help farmers help themselves by providing assistance necessary to improve existing cooperatives and to help organize new ones. The Packers and Stockyards Administration administers the Packers and Stockyards Act of 1921, as amended, and thus, is charged with the responsibility of maintaining fair competitive prices in the marketing of livestock, meat, and poultry. All of these agencies come within the jurisdiction of Secretary McMillan.

We have Martin F. Fitzpatrick, who is the Director of the Office of Transportation; Randall E. Torgerson, Administrator of the Agricultural Cooperative Service; and Bill Jones, Administrator of the Packers and Stockyards Administration. Welcome to the subcommittee.

Secretary McMillan, please proceed.

PREPARED STATEMENTS

Mr. **McMILLAN**. Thank you very much, Mr. Chairman. We will proceed, if it is agreeable with you, by allowing each of the administrators to present his statement, after which each would be happy to answer any questions you may have.

Senator COCHRAN. That will be perfectly satisfactory. We do have statements from each of the witnesses which we will make a part of the record in full, and ask you to summarize or highlight anything you feel deserves some emphasis.

[The statements follow:]

PREPARED STATEMENT OF MARTIN F. FITZPATRICK, JR.
DIRECTOR

OFFICE OF TRANSPORTATION

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

IT'S A PLEASURE TO APPEAR BEFORE THIS COMMITTEE TO PRESENT THE BUDGET AND PROGRAM NEEDS OF THE OFFICE OF TRANSPORTATION FOR FISCAL YEAR 1983. WITH ME TODAY is DR. ROBERT TOSTERUD, CHIEF ECONOMIST FOR THE OFFICE OF TRANSPORTATION, AND MRS. MARGO GRANT, BUDGET ANALYST, FINANCIAL MANAGEMENT DIVISION, AGRICULTURAL MARKETING SERVICE.

THE PAST YEAR HAS BEEN A SIGNIFICANT TRANSITION PERIOD FOR THE OFFICE OF TRANSPORTATION. THOUGH STILL A YOUNG AGENCY, THE OFFICE OF TRANSPORTATION IS NO LONGER THE PATCHWORK OFFSPRING OF ITS PARENT AGENCIES. THE OFFICE OF TRANSPORTATION IS NOW RUNNING ON ITS OWN RECORD.

AND WE ARE PROUD OF THAT RECORD. EVENTS OF THE PAST FEW YEARS AND THE OFFICE OF TRANSPORTATION'S SUCCESSES HAVE DEMONSTRATED THE WISDOM IN HAVING ESTABLISHED A TRANSPORTATION AGENCY WITHIN USDA. WITHOUT IT, I DO NOT BELIEVE THAT USDA COULD HAVE BEEN AS EFFECTIVE AS IT HAS BEEN IN REPRESENTING THE INTERESTS OF AGRICULTURE WITHIN ADMINISTRATION COUNCILS ON SUCH MAJOR POLICY ACTIONS AS THE MOTOR CARRIER ACT, THE STAGGERS RAIL ACT, AND WATERWAY USER CHARGES. WITHOUT IT, USDA MIGHT NOT HAVE BEEN AS RESPONSIVE OR SUCCESSFUL IN ASSISTING EXPORTERS TO SHIP RECORD VOLUMES OF COMMODITIES TO MEXICO. HISTORY TESTIFIES TO THE FACT THAT, WITHOUT THE OFFICE OF TRANSPORTATION, USDA WOULD NOT HAVE ENJOYED THE CURRENT HIGH LEVEL OF COOPERATION WITH THE DEPARTMENT OF TRANSPORTATION ON JOINT FUNDING OF RESEARCH AND OTHER PROJECTS WHICH BENEFIT AGRICULTURE AND RURAL AMERICA.

THE OFFICE OF TRANSPORTATION IS BOTH A RESEARCH AND A SERVICE ORGANIZATION. ONE OF USDA'S TRADITIONAL TRANSPORTATION FUNCTIONS REMAINS A MAINSTAY OF THE OFFICE OF TRANSPORTATION'S PROGRAM, AND THAT IS TECHNICAL ASSISTANCE TO FARMERS AND

SHIPPERS EXPERIENCING SOME KIND OF PROBLEM. WHETHER THE PROBLEM CONCERNS RATES, BRANCHLINE ABANDONMENT, RAILCAR SHORTAGE, OR EXPORT MARKETING, THE OFFICE OF TRANSPORTATION'S TECHNICIANS OFFER ONE-ON-ONE INFORMATION AND ASSISTANCE TO EXPEDITE THE MOVEMENT OF FARM COMMODITIES AND SUPPLIES. WE ESTIMATE THAT DURING 1981, THE OFFICE OF TRANSPORTATION HANDLED CLOSE TO 5,000 REQUESTS FOR ASSISTANCE.

TO ENHANCE OUR RESEARCH, ANALYSIS, AND ASSISTANCE WORK, ONE OF OUR TOP PRIORITIES FOR THE COMING YEAR WILL BE THE FURTHER DEVELOPMENT AND IMPLEMENTATION OF THE AGRICULTURAL LOGISTICS INFORMATION SYSTEM. THIS MANAGEMENT INFORMATION SYSTEM, UNDER DEVELOPMENT IN COOPERATION WITH THE DEPARTMENT OF TRANSPORTATION'S TRANSPORTATION SYSTEMS CENTER, WILL GREATLY INCREASE THE AMOUNT OF INFORMATION READILY AVAILABLE TO THE AGENCY AND TO THE PUBLIC.

PROGRAM OPERATION

I HOPE TO GIVE THE COMMITTEE A PICTURE OF THE DIVERSE AND COMPLEX TRANSPORTATION PROBLEMS THE OFFICE OF TRANSPORTATION IS CALLED UPON TO ADDRESS, A FEW SPECIFIC MAJOR ACCOMPLISHMENTS OF THE OFFICE DURING 1981, AND HOW THE PROPOSED 1983 BUDGET IS DESIGNED TO DEAL WITH FUTURE CHALLENGES.

FY 1981 ACCOMPLISHMENTS

IN 1981, THE OFFICE CONTINUED ITS TRANSPORTATION TECHNICAL ASSISTANCE IN MOVING LARGE VOLUMES OF U.S. AGRICULTURAL COMMODITIES PURCHASED BY MEXICO. THOSE PROBLEMS INVOLVING DOCUMENTATION, CUSTOMS, IMMIGRATION, AS WELL AS SEVERE BRIDGE AND RAIL/TRUCK CONSTRAINTS HAVE BEEN SIGNIFICANTLY REDUCED. UNFORTUNATELY, THE VERY SERIOUS PROBLEM OF TRUCKING RECIPROCITY WITH MEXICO REMAINS.

OVER THIRTY TRANSPORTATION ECONOMIC AND RESEARCH STUDIES WERE EITHER INITIATED, IN PROGRESS, OR COMPLETED DURING 1981 IN THE OFFICE OF TRANSPORTATION. THESE STUDIES WERE PERFORMED AT THE REQUEST OF ASSOCIATIONS OF PRODUCERS, SHIPPERS AND OTHERS WITH A MAJOR INTEREST IN IMPROVING THE AGRICULTURAL TRANSPORTATION SYSTEM. INDUSTRY INVOLVEMENT AND COOPERATION IN MOST OF THESE PROJECTS WAS SUBSTANTIAL--IN FACT, WE'VE ESTIMATED THAT FOR EVERY DOLLAR OF FEDERAL FUNDS PUT

INTO PROJECTS LIKE THESE, INDUSTRY INDIRECTLY CONTRIBUTES AT LEAST TWO IN THE FORM OF TEST COMMODITIES, EQUIPMENT, EXPERT ADVICE, AND ASSISTANCE. THE ECONOMIC ANALYSES PERFORMED AND TRANSPORT TECHNOLOGIES INVENTED OR IMPROVED UPON WERE DEVELOPED WITH THE THOUGHT IN MIND THAT THE STORAGE, HANDLING AND TRANSPORT OF FARM AND FOOD PRODUCTS SHOULD MAKE THE BEST USE OF A MIX OF ALL OUR SHIPPING CAPABILITIES. IN ADDITION, THE NEW INFORMATION ABOUT THE ACHIEVABLE GAINS IN TRANSPORT PRODUCTIVITY ARISING FROM OUR EFFORTS WAS PUBLICLY DISSEMINATED AND THEREFORE AVAILABLE TO ALL POTENTIAL INNOVATORS.

LATE IN 1981, THE OFFICE OF TRANSPORTATION ESTABLISHD A DEREGULATION ASSESSMENT TEAM TO DETERMINE HOW THE 1980 STAGGERS RAIL ACT AND THE MOTOR CARRIER ACT OF 1980 HAVE IMPACTED ON AGRICULTURAL MARKETING AND TRANSPORTATION. THIS EFFORT GREW OUT OF REQUESTS FROM SEVERAL MEMBERS OF THE CONGRESS AND HAS SIGNIFICANT SUPPORT WITHIN THE AGRICULTURAL COMMUNITY. THE DEREGULATION TEAM IS ORGANIZED INTO SMALL GROUPS EXAMINING SPECIFIC AREAS. THE SUBJECT AREAS VARY FROM THE IMPACTS ON AGRICULTURAL MARKETING PRACTICES TO THE IMPOSITION OF SURCHARGES ON JOINT-LINE MOVEMENTS OF AGRICULTURAL COMMODITIES. OUR OBJECTIVE IS TO IDENTIFY AND DOCUMENT FACTUAL SITUATIONS, GOOD OR BAD. OUR EFFORTS SHOULD BE COMPLETE BY EARLY SUMMER.

WE UPDATED OUR OCEAN LINER DIRECTORY, WHICH IS A READY REFERENCE FOR EXPORTERS ON THE SHIPPING CAPABILITIES OF VARIOUS AMERICAN AND FOREIGN FLAG CARRIERS.

STUDIES AND ANALYSES

A STUDY WAS CONDUCTED IN COOPERATION WITH MATSUI-OSK LINES IN WHICH LIVESTOCK WAS TRANSPORTED SUCCESSFULLY OVERSEAS IN SPECIALLY DESIGNED 20-FOOT CONTAINERS CARRIED ON DECK. RESULTS OF THIS WORK INDICATE THAT IT MAY BE FEASIBLE TO TRANSPORT LIVESTOCK BY VESSEL TO OVERSEAS PORTS. THROUGH USE OF CONTAINERS, U.S. INDUSTRY CAN POSSIBLY INCREASE LIVESTOCK SALES TO FOREIGN MARKETS.

THE DEPARTMENT PARTICIPATED WITH THE AMERICAN SOYBEAN ASSOCIATION IN FORMULATING A CONFERENCE DEVOTED TO THE PROMOTION OF THE MOVEMENT OF SOYBEANS THROUGH WEST COAST PORTS. ISSUES TO BE ANALYZED INVOLVED THE ECONOMICS OF MOVING SOYBEANS FROM CERTAIN MID-WEST STATES THROUGH PACIFIC NORTHWEST OR CALIFORNIA PORTS. PARTICIPANTS AT THE CONFERENCE WILL INCLUDE BANKS, RAILROADS, GRAIN OPERATORS, OCEAN TRANSPORTATION GROUPS AND OTHERS.

A study of an improved type of cattle car with an onboard feeding and watering system indicates possible savings in cattle transport by railroad compared to highway of about $1,300 in transportation charges for 40,000 pounds of cattle. Also, rail movement shows a four-to-one fuel saving, less shrinkage in cattle weight, and faster feedlot recovery of animals at destination. A car builder recently supplied the Office of Transportation with an experimental cattle car to be used in further tests.

An economic analysis of the feasibiity of shipping fresh fruits and vegetables from Florida producing areas by intermodal trailer-on-flatcar (TOFC) was completed. Study conclusions indicate that transportation costs can be reduced up to 25 percent to certain market areas by the establishment of a TOFC shipping program. The Office of Transportation completed a similar study for California growers in 1980.

The Office of Transportation has represented the Department as a participating member of the negotiating team which was to negotiate a U.S./U.S.S.R. Maritime Agreement. The current 5-year Agreement expired at the end of 1981. Until the situation in Poland is resolved these negotiations have been delayed.

FY 1982 Projects

The Department authorized a demonstration program designed to determine whether rural transportation cooperatives can revitalize transport services in rural areas. The demonstration program which began in Fiscal Year 1981 and continuing in Fiscal Year 1982, will test the feasibility of such innovations as cooperative ownership of local rail branchlines, trucking equipment, freight handling, transfer facilities, and people transportation. USDA planning grants were made on a competitive basis to three states, North Dakota, Montana and New York. Through the Office of Transportation the U.S. Department of Transportation is sponsoring a comprehensive rural passenger project in the Northeast.

A current research study aimed at reducing energy requirements for transporting frozen foods by railroad shows an estimated saving of about 30 percent in

REFRIGERATION COSTS BY USING CARBON DIOXIDE SNOW IN PLACE OF CONVENTIONAL MECHANICAL REFRIGERATION. FURTHER WORK IS UNDERWAY TO DETERMINE THE TECHNICAL, ECONOMIC, AND OPERATING BENEFITS OF THE CARBON DIOXIDE SYSTEM. MAJOR RAILROADS ARE COOPERATORS.

THE OFFICE OF TRANSPORTATION IS NOW PARTICIPATING WITH THE FEDERAL RAILROAD ADMINISTRATION (FRA), U.S. DEPARTMENT OF TRANSPORTATION, IN A TASK FORCE COMPOSED OF RAIL LABOR, MANAGEMENT AND GOVERNMENT OFFICIALS IN THE NEW ENGLAND STATES. THE TASK FORCE IS EXPLORING THE POSSIBILITY OF INAUGURATING RAIL SERVICES THAT WILL BE USED LARGELY BY AGRICULTURAL PRODUCERS IN AROOSTOOK COUNTY, MAINE. AN ECONOMIC ASSESSMENT OF THE RAIL SITUATION WAS PREPARED AND PRESENTED TO SHIPPERS AND CARRIERS IN THAT AREA.

WITH THE COOPERATION OF THE DEPARTMENT OF TRANSPORTATION, WE WILL SOON PUBLISH A SERIES OF EIGHT EXTENSION PAMPHLETS DEALING WITH RAIL AND MOTOR CARRIER DEREGULATION. THESE PAMPHLETS WERE PREPARED BY UNIVERSITY AGRICULTURAL TRANSPORTATION SPECIALISTS.

FY 1983 BUDGET REQUEST

THE OFFICE OF TRANSPORTATION IS REQUESTING AN APPROPRIATION OF $2,398,000 FOR FISCAL YEAR 1983 WHICH IS A DECREASE OF $2,000 FROM OUR FISCAL YEAR 1982 APPROPRIATION. THIS LEVEL OF FUNDING WILL PROVIDE AN ADEQUATE RESOURCE BASE TO EFFECTIVELY AND EFFICIENTLY FULFILL THE DEPARTMENT'S TRANSPORTATION RESPONSIBILITIES IN 1983.

THE TECHNICAL ASSISTANCE, ECONOMIC ANALYSIS AND RESEARCH PROGRAMS OF THE OFFICE OF TRANSPORTATION HAVE TO BE FLEXIBLE IN ORDER TO RESPOND TO U.S. AGRICULTURAL AND RURAL NEEDS. IN 1983-84, WE WILL REASSIGN OUR PERSONNEL TO ADDRESS THE MORE PRESSING OF THE AGRICULTURAL TRANSPORTATION PROBLEMS. FOR EXAMPLE, WE WILL DEVOTE SIGNIFICANTLY GREATER ATTENTION TO OCEAN TRANSPORTATION PROBLEMS AND OTHER EXPORT TRANSPORTATION BARRIERS. WE INTEND TO WORK ON SOME OF THE DISPARITIES WHICH ARE PREVENTING THE U.S. FROM BEING COMPETITIVE IN MAJOR MARKETS.

IN ADDITION, WE ALSO WILL EXPAND OUR EFFORTS IN TWO AREAS: 1) ASSESSING THE IMPACTS ON AGRICULTURE OF RAIL AND MOTOR CARRIER DEREGULATION, AND ASSISTING AGRICULTURE IN MAKING NECESSARY MARKETING ADJUSTMENTS TO THE DEREGULATED ENVIRONMENT, AND 2) EXPEDITING THE IMPLEMENTATION OF OUR AGRICULTURAL LOGISTICS INFORMATION SYSTEM. THIS NATIONAL AGRICULTURAL TRANSPORTATION ANALYSIS TOOL WILL ENHANCE THE CAPABILITY OF UNIVERSITIES, INDUSTRY ASSOCIATIONS, OTHER GOVERNMENT AGENCIES AND AGRICULTURAL AND TRANSPORT FIRMS TO SOLVE PRESENT AGRICULTURAL TRANSPORTATION PROBLEMS AND PREVENT FUTURE ONES FROM DEVELOPING. TO OFFSET THESE EXPANDED NATIONWIDE EFFORTS, WE WILL SPEND LESS TIME ON REGULATORY CASES, COMMODITY-SPECIFIC STUDIES AND ANALYZING PROBLEMS THAT ARE UNIQUE TO PARTICULAR LOCALITIES.

MR. CHAIRMAN, THIS CONCLUDES MY REMARKS. I WOULD BE HAPPY TO RESPOND TO ANY QUESTIONS THE COMMITTEE MAY HAVE.

Biographical Sketch

Margo L. Grant

Mrs. Grant is a native South Carolinian. Currently, she serves as a budget analyst for Financial Management Division, Agricultural Marketing Service.

Mrs. Grant holds a Bachelor of Science Degree from Voorhees College and an MBA from the University of South Carolina.

Prior to joining AMS, she was a full-time professor at Francis Marion College, instructing Accounting, Marketing and Economics courses. Currently, Mrs. Grant serves as part-time instructor at Northern Virginia Community College-Annandale Campus.

PREPARED STATEMENT OF RANDALL E. TORGERSON
ADMINISTRATOR
AGRICULTURAL COOPERATIVE SERVICE

Mr. Chairman, Members of the Committee:

I appreciate the opportunity to discuss with you the programs and funding request of Agricultural Cooperative Service. First, I want to introduce my associates who are with me today -- Dr. Jack H. Armstrong, Deputy Administrator, Agricultural Cooperative Service, and Ronald Nunnery, Supervisory Budget Analyst, Financial Management Division, Agricultural Marketing Service.

Agricultural Cooperative Service has been operating as an independent Agency since September, 1980, as it did from 1953 to 1978 as the Farmer Cooperative Service (FCS). The Agency carries out major functions assigned to it by the Secretary and closely follows the missions defined by Congress in the Cooperative Marketing Act of 1926.

Agency Missions

Agricultural Cooperative Service is the focal point for research and policy analysis and providing technical assistance to agricultural cooperatives. We provide assistance to improve existing cooperatives. Our efforts concentrate on providing immediate response and leadership to bring about more effective and efficient cooperative operations in support of family farms.

The Agency's programs are directed toward five basic missions; (1) technical assistance, (2) cooperative development, (3) research, (4) collection of cooperative statistics, and (5) cooperative education and information.

Technical Assistance and Development

Technical advisory assistance is provided in response to requests coming directly from farmers or through boards of directors of cooperatives. We provide help in developing new cooperatives, examining the merits of potential cooperative mergers, assessing needed changes in business organization and operations to enhance efficiency and growth, and establishing more effective relationships between cooperatives and other types of farm organizations, businesses and institutions. Our technical assistance program covers the full range of organization and management problems confronting cooperatives. The Agency provided technical assistance to more than 50 producer groups and developing cooperatives in FY 1981. These projects involved a wide variety of commodities including fruits and vegetables, livestock, forestry, dry beans, crafts, poultry, rabbits, grain, peanuts, coffee and Macadamia nuts. These assistance efforts involved producers in many different states across the nation. The types of assistance provided by the Agency ranged from basic organizational planning for emerging cooperatives, to designing coordinated transportation systems for groups of cooperatives, to helping cooperatives develop programs for the export sales of their members' commodities.

Cooperative Research

Research on cooperative issues is conducted to give farmers and policymakers accurate and relevant data on problems relating to cooperatives. Research is focused on broad problems facing the entire agricultural cooperative community and on specific issues dealing with commodity or regional groups. Some examples of Agency research topics during the past year are redemption of member equity in cooperatives, attitudes of northeastern dairy farmers toward their cooperatives, cooperative petroleum operations, and a financial profile of the largest cooperatives. This latter study showed equity capital of the largest cooperatives fell from 52.4 percent of total assets in 1962 to 28.6

percent in 1980. We are concerned about the potentially serious problems these cooperatives face if this trend continues.

Cooperative Statistics

Statistical data on cooperatives is collected to detect changes in structure, operations, and growth trends. These data help identify and support applied research and technical assistance activities. Last year, we identified 6,445 farmer cooperatives in the United States--a decline of 291 cooperatives from 1977, in part reflecting a continuing reorganization trend involving merger, consolidation, or dissolution. Recent data also shows cooperatives increased their share of farmers' marketing volume from 26 percent in 1970 to 28 percent in 1979. The increase was greatest in grain and soybeans and cotton over that 10 year period. Cooperative shares of marketing activity in dairy, fruit and vegetable, livestock, and poultry were fairly stable.

In farm supplies, producers increased their share of supplies purchased through their cooperative from 15 percent in 1969-70 to 19 percent in 1979. Increases in share of marketing activity was registered for all major supply categories--chemicals, fertilizer, and petroleum product groups.

Education and Information

The Agency also serves as the national focal point for educational information on farmer cooperatives. This information is made available through a variety of informational and educational publications. The Agency works through a number of state and national educational organizations to communicate this information. For example, in FY 1981, we distributed more than 150,000 copies of publications in response to 2,500 requests. Most of this distribution was bulk quantities to organizations that in turn distributed to teachers and individuals directly involved with cooperatives. These organizations included the

Joint Council of Economic Education, American Institute of Cooperation, state cooperative councils, and land-grant universities.

Problems Facing Cooperatives

During the 60 years USDA cooperative programs have been functioning, the nature and scope of problems facing farmer cooperatives have become increasingly broad and complex because of changes throughout the food production and marketing system. In earlier years, farmers were organizing cooperatives to improve farm-level competition in purchasing farm supplies and selling raw farm products. The need to improve competition in farm markets still persists for many commodities including those where farm program changes have been occurring and where farm oprators have been slow in discovering potential benefits of cooperative action.

A major focus today is developing cooperative business systems meeting farmers and ranchers needs and positioning farmer-owned cooperatives so they can effectively compete in an increasingly concentrated food and fiber industry. Maintaining and strengthening the financial base of cooperatives is particularly critical in these times of high inflation and interest rates. Inadequately capitalized organizations cannot maintain their economic position in the marketplace. This has been true especially during the past 2 years when farmers have found their cooperatives' earnings substantially reduced or turned into losses. Capital formation is a key issue for the years ahead. Cooperatives also need capital to finance their increasingly important role in exporting agricultural products.

During the past decade, factors affecting the operation of agricultural cooperatives have included changes in the business structure of agriculture, changes in transportation modes and service, a dynamic energy situation, the high cost of debt and the associated problem of investments and the increasing growth and importance of agricultural exports. Probably the most important of these changes in terms of creating problems and opportunities for farmers and their agricultural cooperatives is the restructuring of the food and fiber sector into a set of more closed vertically coordinated marketing systems. Significant structural changes affecting agriculture and rural America include the withdrawal of many major oil companies from rural markets, the selling off of many food manufacturing operations by diversified firms attracted by greater returns elsewhere, and the increased use of contracts and direct procurement by processors.

Reacting to these changes in industry structure, farmers have extended their cooperatives from local organizations simply negotiating terms or selling their pooled products to multi-cooperative linkage systems at the regional, interregional, and in some cases international levels. These additional dimensions of cooperation have enabled cooperatives to provide more basic sources of farm inputs, transportation, and other services, and have made it possible for farmers to directly market commodities in domestic and world markets. Farmers have extended their cooperatives into nearly all sectors of the agricultural marketing system. Further integration by farmers through their cooperatives into the marketing system, from farm inputs to consumers, will determine in large part the future survival and role of agricultural cooperatives.

This market adaptation by cooperatives continues to be studied closely by ACS. As an Agency, it is our mission to assist farmers in the organization and development of economically strong farmer cooperatives and, thereby, to improve farm income and foster competition in the food industry. By making available the appropriate technical advice and assistance to cooperatives, and researching issues crucial to farmer cooperatives, we will strengthen these self-help farmer organizations.

While much work remains to be done to further develop and expand the cooperative system of furnishing farm inputs and marketing farm products, recent trends show headway has been made in increasing cooperative activity. In 1979, combined sales of the nation's farmer cooperatives reached a record $56.3 billion. This volume was 29.1 percent greater than the $43.6 billion in sales in 1977.

The marketing component of 1979 sales was $41.7 billion, 29.7 percent above 1977 levels. Grain, the leading farm product, accounted for $14.9 billion, up 26.1 percent from the 1977 figure. Cooperative farm supply volume rose 28.1 percent to $13.5 billion. While part of these gains in sales volume are the result of inflation it does clearly demonstrate to the nation's farmers the benefits of cooperative marketing. We shall maintain our efforts to keep farmers informed of the important role cooperatives play in providing a farmer owned and controlled system for delivering food to the marketplace.

Agricultural Cooperative Service is involved in an internal evaluation of all program missions and objectives. As a result of budget constraints we are pursuing reductions in selected portions of our research and technical assistance programs to focus more on the broader problems affecting the entire agricultural cooperative community. As a result of this assessment, our budget request for 1983 is $3,683,000, a decrease of $956,000 from our 1982 appropriation. This funding level will still permit us to provide appropriate technical assistance and perform needed research to meet the Agency's goal of improving farm income by strengthening farmer self-help organizations.

PREPARED STATEMENT OF B. H. (BILL) JONES
ADMINISTRATOR
PACKERS AND STOCKYARDS ADMINISTRATION

Mr. Chairman, Members of the Committee:

I appreciate the opportunity to appear before this Committee to discuss the programs of the Packers and Stockyards Administration (P&SA) and our budget request for fiscal year 1983. First, may I introduce my associates, James L. Smith, Deputy Administrator; Calvin W. Watkins, Assistant to the Administrator, and Reginald J. Haley, the Financial Management Division

P&SA is responsible for enforcement of the Packers and Stockyards Act of 1921 as amended. The primary objective of the Act is to assure the integrity of the livestock, meat, and poultry markets and the market place. This includes fostering fair and open competition and guarding against deceptive and fraudulent practices which affect the movement and price of meat animals and the products therefrom. Other functions of the agency include assuring prompt payment to producers for livestock, assuring nondiscriminatory marketing charges and accurate weights. The agency's programs also include protecting consumers from fraudulent practices in the marketing of meat.

The Act was amended in 1976 to provide stronger financial safeguards for cash sellers of livestock against financial losses resulting from the failure of meat packers. The 1976 amendments also moved the requirement for packers, market agencies and dealers to pay promptly for livestock into the Act itself.

In summary, the following provisions are designed to achieve these objectives:

-- The Secretary is authorized to require packers purchasing more than $500,000 worth of livestock annually to obtain bonds to assure payment to sellers of livestock.

-- Packers, market agencies, and dealers purchasing livestock are required to pay for livestock by the close of the next business day unless the buyer and seller expressly agree to an exception to this requirement in writing.

-- Packers purchasing more than $500,000 worth of livestock annually are required to maintain a constructive statutory trust for cash sellers of livestock in specified assets until payment is received for the livestock, provided the seller notifies the packer and P&SA within the time specified.

-- Jurisdiction of the statute includes wholesale meat brokers, dealers and distributors who do not slaughter livestock or manufacture or prepare meat or meat food products.

-- The Secretary is authorized to seek temporary restraining orders and injunctions when financial conditions and/or nonpayment warrant.

-- Assessment of civil penalties, issuance of cease and desist orders, and supervision of registrations of market agencies and dealers are authorized.

SUMMARY OF AGENCY ACTIVITIES

The programs of the Packers and Stockyards Administration are separated into two major areas. The Livestock Marketing Division is concerned with competition and marketing practices, financial protection, and scales and weighing. The Packer and Poultry Division is concerned with competition and trade practices in livestock procurement by packers, in meat and poultry marketing, and in compliance with other requirements of the Act.

Livestock, meat and poultry production and marketing continue to change. The agency is alert to these changes and reviews its programs of work to adjust to such changes, in accordance with statutory authority. The move on the part of P&SA to review all of its regulations and policy statements is evidence of its sensitivity to change within the livestock, meat and poultry industries.

In fiscal year 1981, the agency expedited its regulatory review process. To implement the accelerated schedule, an internal task force was established to review all regulations and policy statements and to make recommendations designed to lessen regulatory burdens on industry without restricting the agency's effective enforcement of the Act.

The livestock marketing activities of the agency have been reorganized for increased efficiency by implementing a major decentralization from the Washington headquarters to the field offices. This change has expedited processing of registration, bonds and trust funds, tariffs, and other related documents.

Because of the changes in marketing patterns, livestock marketing program resources are being directed away from investigations of public markets to off-market investigations and audits. This change in emphasis is designed to put the focus where the marketing volume and the problems exist.

The responsibility of the Packer and Poultry Division lies in insuring open and free competition in the marketing of livestock, meat and poultry. Additional emphasis is being given to ferreting out fraudulent practices in the marketing of meat. Fraudulent practices are of consequence to producers, to firms engaged in processing and distribution, and to consumers.

Additional program resources are being utilized to monitor the financial condition of packers, in connection with their procurement of livestock. Prompt payment, bonding, solvency, and implementation of the statutory trust are also being given high priority. These activities on the part of the agency have paid dividends in eliminating losses to producers in cases where packers have developed financial problems.

PRIORITIES IN LIVESTOCK MARKETING

Major emphasis has been given to investigating fraudulent marketing practices for several years. This emphasis will continue to be stressed in work planning and allocation of the agency's available resources, particularly with respect to non-market transactions. Fraudulent practices which occur in direct marketing are a major concern to the agency and the livestock industry. These include false weighing, weight and price manipulation, switching of livestock, and misrepresentations as to the source, origin, and health of livestock.

Any practice, agreement, or understanding which excludes a potential buyer from bidding in open competition, either in direct trading or at public markets, is a restraint on competition. Investigations often disclose apportioning of territories, price agreements or arrangements not to compete, and payoffs to buyers. Any information which indicates that a restriction of competition may exist will continue to be investigated on a priority basis.

Financial protection will continue to receive high priority within P&SA. It is vital to the integrity of the industry for livestock producers to receive payment for their livestock when it is marketed. The major emphasis will be directed at serious insolvencies, prompt payment, and financial frauds.

MEAT MARKETING

A major emphasis in meat marketing continues to be in the area of illegal inducements, including commercial bribery and illegal brokerage. Several major cases were concluded in fiscal year 1981 and several will reach the hearing stage in fiscal year 1982. Investigations of these practices will continue to receive high priority.

The agency continues to monitor the price movement of livestock and fresh meat in the cash market. Liaison is maintained with the Commodity Futures Trading Commission in monitoring the relationship between the cash and the futures market. Investigations are initiated when there is any indication of possible price manipulation.

The agency has concluded, based upon recent investigations, that additional program resources need to be allocated to the area of commercial bribery. Bribery is an illegal marketing cost which can eliminate other competitors and can result in either lower prices to livestock producers, hgiher prices to consumers, or both.

P&SA is working closely with other government agencies--including the FBI, the Postal Service, and Internal Revenue Service--to correct such fraudulent practices. Cases of this kind often result in grand jury investigations. Several of these have been conducted during the past year and have resulted in sanctions against the violators.

GRADE AND WEIGHT

Program emphasis has also been given to the purchasing of livestock on a carcass basis, including a major investigation of the calf and veal industry in the Northeastern section of the United States.

Over the past year, producer groups have expressed concern over the lack of uniformity in packers grade and yield hog buying programs. There are differences in the three basic value-determining factors used by major hog slaughterers and these differences may not be readily understood by hog producers. A comprehensive review of hog procurement practices will be completed in fiscal year 1982. The objective is to assist the industry in developing pricing methods which are equitable to both buyers and sellers.

SCOPE OF OPERATIONS

Currently, 1,782 stockyards and 400 integrated poultry operations are subject to the Act. There are 11,815 persons and firms registered as market agencies and dealers. Approximately 6,100 packers are covered under the Act; of these, approximately 1,000 are required to file annual reports.

The total value of livestock, poultry, and meat handled by persons subject to the Act is approximately $60 billion each year.

FISCAL YEAR 1983 BUDGET REQUEST

The total budget request of the Packers and Stockyards Administration for fiscal year 1983 is $8,564,000 -- a reduction of $242,000 from fiscal year 1982. The $8,564,000 figure includes restoration of the added fiscal year 1982 pay costs of $350,000.

PROGRAM REDUCTIONS

The actual amount of program reduction for 1983 compared to 1982 is $592,000, all of which is to be absorbed by the programs of the Livestock Marketing Division.

BONDING

The fiscal year 1983 request reflects a decrease of $411,000 resulting from the elimination of enforcing bonding on dealers and order buyers who purchase less than $500,000 worth of livestock annually, This program reduction would eliminate the bonding of most small dealers and order buyers who are now required to file $5,000 bonds. About one-half of the dealers and order buyers currently registered fall within this category. The reason for recommending elimination of bonding for these operators is that the program is not cost effective. Only about $51,000 a year is recovered from the bonds maintained by this category of buyers.

Investigations

The budget request for fiscal year 1983 also reflects a decrease of $122,000 previously allocated for investigations to determine the financial condition of registrants. This reduction is in line with the changing priorities of the agency to redirect program resources to the high priority program areas.

Scale Testing

The final program reduction is a decrease of $59,000 in scale testing. Presently, most of the scale testing work is done by the states and private industry firms. P&SA actually is not engaged in scale testing. Rather, the agency's resources in this program area are devoted to scales and weighing investigations, checkweighing, etc.

PAY COSTS

The final component of the budget request is an increase of $350,000 to restore pay costs absorbed in fiscal year 1982. This restoration is needed to carry out the programs proposed for fiscal year 1983.

Mr. Chairman, I thank you for the opportunity to present this statement. My associates and I will be pleased to respond to any questions you or other members of the Committee may wish to ask.

BIOGRAPHICAL SKETCHES

B.H. (BILL) JONES

B. H. (Bill) Jones is currently the Administrator of the Packers and Stockyards Administration, U.S. Department of Agriculture.

He is a native of Colorado and spent his early years ranching and farming in Western Colorado. He attended Colorado State University where he received his B.S. in Animal Husbandry and he received his M.S. in Agricultural Economics from the University of Illinois, Urbana.

Mr. Jones was Vice President of the National Cattlemen's Association from 1977 until he joined P&SA in October 1981. From 1971 to 1977, he was Executive Vice President of the National Livestock Feeders Assn. Prior to that, from 1961 to 1957, he was Assistant Director of the Nebraska Department of Agriculture.

James L. Smith

James Smith is currently the Deputy Administrator of the Packers and Stockyards Administration U.S. Department of Agriculture.

He is a native of Geary, Oklahoma and grew up on a livestock and grain farm. He attended Oklahoma State University and received his B.S. in Animal Husbandry.

Mr. Smith served in the U.S. Army from 1954-56. After his military service, Mr. Smith was employed by Armour and Company as a cattle buyer in 1956. From 1957-64, he was employed with Packers and Stockyards, but during 1956 he worked with the National Commission on Food Marketing. In 1966, Mr. Smith rejoined Packers and Stockyards.

Calvin W. Watkins

Calvin W. Watkins is currently the assistant to the administrator of the Packers and Stockyards Administration, U.S. Department of Agriculture.

He is a native of Nashville, Tennessee and graduated from Middle Tennessee State University in 1958, with a degree in business administration.

Mr. Watkins began his career with Packers and Stockyards in October 1961 as an accountant. In December 1968, he was promoted to regional supervisor in the California office, where he was reponsible for P&S activities in California, Arizona and Nevada until he was promoted in 1976 to chief of the marketing practices branch in the livestock marketing division in Washington, D.C.

Prior to joining P&S Mr. Watkins was employed by Ralston Purina Co. for three years as an internal management auditor.

Reginald J. Haley

Reginald Haley is a native of the District of Columbia. He is a budget analyst with the Financial Management Division, Agricultural Marketing Service and has served in this capacity since 1977.

Mr. Haley first joined USDA in 1973 and is currently the budget analyst for the Packers and Stockyards Administration.

OFFICE OF TRANSPORTATION

Mr. McMILLAN. Very well. We will follow the order in which you introduced the witnesses and have Mr. Fitzpatrick present his statement first.

Mr. FITZPATRICK. Thank you, Mr. Chairman. It is a pleasure to be here to present the budget and program needs of the Office of Transportation for fiscal year 1983. With me today are Dr. Robert Tosterud, Chief Economist for the Office of Transportation, and Mrs. Margo Grant, Budget Analyst, Financial Management Division, Agricultural Marketing Service.

The past year has been a significant transition period for the Office of Transportation. We have acted as the voice of rural transportation in Washington, D.C., and have served to assist and point out agricultural concerns to the other transportation agencies.

OT'S ACCOMPLISHMENTS

I would just like to touch on a couple of accomplishments of the Office of Transportation over the past year.

The Office continued its technical assistance in moving large volumes of U.S. agricultural commodities purchased by Mexico. Those problems involving documentation, customs and immigration and severe bridge and rail/truck constraints were significantly reduced.

In the area of studies, over 30 transportation economic and research studies were either initiated, in progress, or completed during 1981 in the Office of Transportation. These studies were performed at the request of associations of producers, shippers and other organizations with a major interest in improving the agricultural transportation system. Industry involvement and cooperation in most of these projects was substantial. In fact, we have estimated that for every dollar of Federal funds put into these projects, industry indirectly contributed at least $2 in the form of test commodities, equipment, expert advice and assistance.

FISCAL YEAR 1983 BUDGET REQUEST

I would like to now quickly summarize our budget request, Mr. Chairman, for fiscal year 1983.

The Office of Transportation is requesting an appropriation of $2.398 million for fiscal year 1983, which is a decrease of $2,000 from our fiscal year 1982 appropriation. This level of funding will provide an adequate resource base to effectively fulfill the Department's transportation responsibilities in 1983.

The technical assistance, economic analysis and research programs of the Office of Transportation have to be flexible in order to respond to agricultural and rural needs. In 1983 and 1984, we will reassign our personnel to address the more pressing of agricultural transportation problems. For example, we will devote significantly greater attention to the problems of ocean transportation and other export transportation barriers. We intend to work on some of the disparities which are preventing the U.S. from being competitive in major markets.

In addition, we will also expand our efforts in two areas: (1) assessing the impacts on agriculture of rail and motor carrier deregulation, and assisting agriculture in making necessary marketing adjustments to the deregulated environment, and (2) expediting the implementation of our agricultural logistics information system, which is a large endeavor we have undertaken to supply agricultural shippers, universities, and other organizations throughout the country with agricultural transportation information.

This concludes my remarks, Mr. Chairman, and I would be happy to respond to any question at the appropriate time.

Senator COCHRAN. I notice you have a decrease of about $2,000 in this year's request from last year's. Is that going to have an adverse impact on the operation of your office, or do you think you can manage with that reduction?

Mr. FITZPATRICK. It will not have an adverse impact, and we will be able to serve the agricultural interest with that budget request.

WATERWAY USER FEES

Senator COCHRAN. I can't think of anything any more important than making sure we have an adequate transportation system if we are going to increase our agricultural exports. If we can't move the commodities both within the United States and then through our ports and other facilities to foreign markets, you just can't sell them. The cost of transportation continues to go up. That is going to have an adverse impact on farm income and the ability of our producers to be competitive with other producers in other parts of the world. In that connection, I wonder what your office has been doing to try to get the administration to change its policy on waterway user fees?

Mr. FITZPATRICK. Mr. Chairman, we worked very actively with the Office of Management and Budget and the Department of Transportation in presenting our views and the concerns of the Department of Agriculture. We have tried to elevate the concerns of farmers and farm organizations. The USDA has generally concurred with the section 205 statement presented by the Department of Transportation. We have made some suggestions to the Office of Management and Budget and to the DOT to reduce the negative impact upon farmers of the potential user fees.

Senator COCHRAN. In other words, you have tried and failed to get them to change that policy.

Mr. FITZPATRICK. Well, we have made some progress. We have some disagreements, but we agree with the general thrust of recovery—100-percent cost recovery. We have made some suggestions in terms of imposing user fees and how they are to be incorporated into the system.

Senator COCHRAN. These shipping costs are going to be included in the ultimate cost of the products shipped, and this means you are going to escalate the price of agricultural commodities to foreign purchasers. That makes our goods less competitive in international markets with goods from other countries which produce the same commodities. We may end up losing markets.

RAIL TRANSPORTATION

How do you assess right now the situation with respect to rail transportation within the United States? We have had a lot of abandonments of rail lines that have caused concerns in all parts of the country. How do you assess the situation as it affects American agriculture and the continued abandonment of rail lines?

Mr. FITZPATRICK. We have worked closely with railroads and organizations about abandonments. In fact, we have, in some cases, been able to persuade railroads to reduce their abandonment procedures. For example, we provided information that assisted the Burlington Northern Railroad to minimize and reduce some of its original plans for an extensive abandonment program. And we have worked very closely with farm organizations, farmers, and State Departments of Agriculture to reduce this situation. It is a very big concern across the country. In some cases the abandonments will help make the system more efficient; in some cases, the abandonment will actually hurt the movement of agricultural commodities, and we try to help communities make judgments on those.

RURAL TRANSPORTATION

Senator COCHRAN. In looking over your statement which you have given to the subcommittee, I tend to agree that most of the functions that you are performing seem to be needed, are worthwhile, and very, very important; however, I came across one here that makes me wonder. You say that through the Office of Transportation, the U. S. Department of Transportation is sponsoring a comprehensive rural passenger project in the northeast. What is that and with what does that have to do?

Mr. FITZPATRICK. In fact, Mr. Chairman, you encouraged our office during our appropriations hearings last year to get more involved in rural passenger transportation. We had an opportunity to work with the Department of Transportation in the northeast user cooperative concept for the entire northeast region to assist in solving some of their transportation problems. We expect the products of this experiment and technology to be used in other regions of the country after the experiment is completed sometime in the next year.

Senator COCHRAN. What is it? What are you doing?

Mr. FITZPATRICK. There is an effort to improve passenger transportation in many of the rural communities, by attempting to use the train operations in innovative ways. The experiment is in the process of being designed at this point. The general thrust is to improve the availability of transportation in rural areas far from major cities.

Senator COCHRAN. Is money to carry out that project included in your budget or in the budget of the Department of Transportation?

Mr. FITZPATRICK. It is included in the budget of the Department of Transportation.

Senator COCHRAN. Well, I will be interested in what you all decide.

Mr. FITZPATRICK. We will make sure your staff is aware of it.

Senator COCHRAN. It sounds like a waste of time, frankly. Are we going to have car pooling among farmers—get them to ride two in the pickup instead of one?

Mr. FITZPATRICK. We hope it is a little more sophisticated than that.

Senator COCHRAN. I do too.

Thank you very much. I appreciate your testimony and your answers to the questions.

Mr. FITZPATRICK. Thank you.

AGRICULTURAL COOPERATIVE SERVICE

Mr. MCMILLAN. Mr. Chairman, Dr. Randall Torgerson, Administrator of the Agricultural Cooperative Service will present his statement next.

ACS ADMINISTRATOR'S STATEMENT

Dr. TORGERSON. Thank you, Mr. Chairman. We appreciate the opportunity to testify before you today, and with your permission, I will highlight my testimony.

The Agricultural Cooperative Service has been operating as an independent agency since September 1980, as it did from 1953 to 1978 as the Farmer Cooperative Service. The agency carries out major functions assigned to it by the Secretary, and closely follows the missions defined by Congress in the Cooperative Marketing Act of 1926.

PROGRAM MISSIONS

The Agricultural Cooperative Service is the focal point for basic and applied research, policy analysis, and technical assistance to agricultural cooperatives. Agency programs are directed toward five basic missions: technical assistance, cooperative development, research, collection of cooperative statistics, and cooperative education and information. In many respects it is a mini-USDA insofar as its programs for the cooperative community are concerned.

In the technical assistance area, we provide responses to requests coming directly from farmers or through boards of directors of the cooperatives. The Agency provided technical assistance to more than 50 producer groups and developing cooperatives in fiscal year 1981.

The research program of the Agency is designed to address issues facing cooperatives and to give farmers and policymakers accurate and relevant data on problems relating to cooperatives. One of our studies in the financial area this past year shows the equity capital of the largest cooperatives fell from 52.4 percent of total assets in 1962 to 28.6 percent in 1980.

In the statistical area, statistics on cooperatives are collected to detect changes in structure, operations, as well as growth trends. Last year, we identified 6,445 farmer cooperatives operating in the United States. These are organizations that deal basically in marketing, farm supply, and related services. Recent data also shows that cooperatives increased farmers' share of marketing volume from 26 percent in 1970 to 28 percent in 1979. In farm supplies, producers increased their share of supplies purchased through cooperatives from 15 percent in 1969-70 to 19 percent in 1979.

In the education and information area, the Agency serves as the national focal point for education information on farmer cooperatives. As an example, in 1981 we distributed over 150,000 copies of publications in response to over 2,500 requests. We cooperate with many institutions and agencies in disseminating this information.

PROBLEMS FACING COOPERATIVES

Mr. Chairman, the nature and scope of the problems facing farmer cooperatives have become increasingly broad and complex because of changes throughout the food production and marketing system. A major focus today is in developing cooperative business systems meeting farmers' and ranchers' needs, and positioning farmer-owned cooperatives so they can successfully compete in an increasingly concentrated food and fiber industry. Among the issues facing them, capital formation stands out as the most formidable. Factors affecting agricultural cooperatives in recent years have included changes in the business structure of agriculture, changes in transportation modes and service, a dynamic energy situation, the high cost of debt and associated problems of investment, and increasing growth and importance of agricultural exports. Farmers have extended their cooperatives from local organizations simply negotiating terms to multi-cooperative linkage systems at the regional, inter-regional and, in a few cases, at the international level.

As an agency, it is our mission to assist farmers in their organization and development of economically strong farmer cooperatives, and to thereby improve farm income and foster competition in the food industry. In 1979 combined sales of the Nation's farmer cooperatives reached a record $56.3 billion.

1983 BUDGET REQUEST

Mr. Chairman, as a result of budget constraints we are pursuing reductions in selected portions of our research and technical assistance programs. As a result, our budget request for fiscal 1983 is almost $3.7 million, a decrease of about $1 million from our 1982 appropriation.

That concludes my highlights, Mr. Chairman. I will be happy to respond to any questions you may have.

Senator COCHRAN. Thank you very much, Dr. Torgerson.

You refer in your statement to the Cooperative Marketing Act of 1926. Are the mandates of that law and the missions created in that law still needed today in view of the sophistication that has developed over the last 50 some-odd years? Does the Government continue to need to hold the hands of our cooperatives, or are they able to function without our advice or counsel?

DEMAND FOR ACS SERVICES

Dr. TORGERSON. Mr. Chairman, there is a continuing demand from the cooperative community and policymakers for technical advice and research. Certainly, the structure of the business community and production agriculture has changed very substantially in those 56 years. When you look at the makeup of the 6,500 cooperatives that exist today, we observe over 87 percent of them had sales under $10 million last year. So these are basically small business organizations in every sense of the word. Even the larger ones are relatively small in comparison with those with whom they deal in the marketplace. The disparity of market power faced by the individual producer has increased in the period since 1926 when the act was passed. Many of the problems individual producers are facing today are much the same as those we faced in 1926. It is true that a number of cooperatives have attained a size and scope of business activity where they can provide operational research. Many of the programs we focus on are those that affect all cooperatives. We look at it from a broad industry perspective and identify the changes taking place so cooperatives can effectively respond to those changes.

Senator COCHRAN. I notice you suggest one way to manage this almost $1 million reduction in your budget is to change the emphasis within your office to broad general assistance and technical information that you provide the cooperatives, rather than specific assistance to any one cooperative.

ACS PROGRAM ADJUSTMENTS

Dr. TORGERSON. We suggest focusing more on broader kinds of areas as they may affect grain, livestock, farm supplies, and assistance to emerging cooperatives, particularly those that have broader applicability in terms of our research program.

The law requires, however, that the agency respond to requests from individual cooperatives for technical advisory assistance. The number of requests that come to us for assistance in organizing new cooperatives will still remain. We contemplate that we will continue to respond to those requests to the extent we are capable.

NEED FOR COOPERATIVES

Mr. MCMILLAN. Mr. Chairman, may I expand just a moment on the broad context of agricultural cooperatives and their needs today versus 1926 when the Act first became law.

I would say that the need for the cooperative may be even greater today than it was when the Act was originally passed. I say that in the context of the diversity and the overall problems that exist and the changes in the distribution and processing systems. Therefore, we feel strongly that the law should be preserved in order to provide that extra ingredient of bargaining power that is necessary because of the unique needs of cooperative agriculture in America today.

Senator COCHRAN. Thank you. I have no doubt about the need to continue Government support for and authority for cooperatives, too. My question centered mostly on the need for continued technical assistance, since cooperatives have existed over this long period of time. The question is whether or not we have an obligation through the ACS to continue to provide the technical assistance to cooperatives that maybe they once needed. I think my question has been fully answered.

HAWAII FIELD OFFICE

I recall that in the 1982 appropriations bill, we appropriated $139,000 for the opening of an office in Hawaii. What is the status of that office?

Dr. TORGERSON. Mr. Chairman, the budget for 1982 was approved in December 1981. At that time, we received our budget marks and ceiling allocations for 1982 and the proposals for 1983. Under our current personnel ceiling, we are under an agency hiring freeze. As a result, we haven't been able to hire and fill the position in Hawaii. We have, however, made an exploratory trip to the islands, and we have plans to detail one of our staff from the cooperative development division to Hawaii for on-site technical advisory assistance sometime this spring. To that extent we will be attempting to meet the directive that was imposed by Congress last year.

CONTRACT WORK

Senator COCHRAN. You contract some work to land-grant colleges and universities; do you not?

Dr. TORGERSON. Yes, Mr. Chairman, a significant part of our research program is performed through cooperative research agreements with land-grant universities.

Senator COCHRAN. Do you anticipate about the same level of contracting out next year, or would it be less?

Dr. TORGERSON. Under the proposed budget, that portion of our research program will be almost entirely eliminated. We anticipate a reduction of about 31 percent in our overall research on cooperatives under the proposed 1983 budget.

Senator COCHRAN. OK, thank you very much.

PACKERS AND STOCKYARDS ADMINISTRATION

Mr. MCMILLAN. Now, Mr. Chairman, to conclude the panel, Mr. Bill Jones, Administrator of the Packers and Stockyards Administration.

You may recall that the Packers and Stockyards Administration had been part of the Agricultural Marketing Service. A reorganization in 1981 placed the Packers and Stockyards Administration back in agency status, where it had been prior to 1977. This was done because of the regulatory nature of Packers and Stockyards as contrasted to the marketing aspects of the Agricultural Marketing Service.

Mr. JONES. Thank you, Mr. Chairman.

If it is appropriate to do so before turning to my statement, I would like to commend you and your staff for the manner in which the hearings are being conducted. It certainly shows a concerted effort on your part to stay current on the issues. I know what a job that is, and I do commend you and your staff for the job you are doing.

Senator COCHRAN. Thank you.

ADMINISTRATOR'S OPENING REMARKS

Mr. JONES. I appreciate the opportunity to appear before the committee to discuss the programs of the Packers and Stockyards

Administration and the budget request for fiscal year 1983. With me today are James L. Smith, who is the Deputy Administrator of the Packers and Stockyards Administration; Calvin W. Watkins, who is Assistant to the Administrator; and Reginald J. Haley, budget analyst, Financial Management Division, Agricultural Marketing Service.

SUMMARY OF AGENCY ACTIVITIES

As you know, P&SA is responsible for the enforcement of the P&S Act of 1921, as it has been amended. The primary objective of the act is to assure the integrity of livestock, meat and poultry markets and the marketplace. This includes fostering fair and open competition and guarding against deceptive and fraudulent practices which affect the movement and price of meat animals and the products therefrom. Other functions of the agency include assuring prompt payment to producers of livestock and assuring nondiscriminatory charges in the marketplace. The agency's programs also include protection of consumers against fraudulent practices in the marketing of meat.

AGENCY ACTIVITY AND SCOPE OF OPERATIONS

In talking about the agency's activities, we have just put up on the stand for you an outline of those activities, and we will not go into them in any detail in the oral statement. If you have questions about them, we will be glad to answer them for you.

Packers and Stockyards Administration

Size of Industries Regulated

• Annual Sales of Livestock, Poultry and Meat	$60 Bil.
• Percentage of Total Farm Income	33%

Coverage of Program

• Scales	5,350	• Posted Stockyards	1,800
• Packers	6,150	• Market Agencies/Dealers	12,500

Areas of Responsibility

- Financial Protection
  - Prompt payment
  - Custodial Accounts
  - Trusts
  - Bonds
  - Solvency
- Maintaining Competition
- Unfair Trade Practices
  - Conflict of Interest
  - Bribery—Livestock and Meat
  - Fraudulent Practices
- Accurate Weighing

AGENCY OPERATIONS

The same thing is true for the scope of agency operations. We have listed the size of the industry and its financial importance, and then the coverage of the programs and various entities that are subject to the programs.

FISCAL YEAR 1983 BUDGET REQUEST

And then turning directly to the fiscal year 1983 budget request, the total request is $8,564,000; this is a net reduction of $242,000 from fiscal year 1982. This $8,564,000 figure does include restoration of the fiscal year 1982 pay costs of $350,000.

PROGRAM REDUCTIONS

The program decreases are outlined in my statement. The first decrease would be from bonding of small dealers and order buyers. We recommend dropping the program to bond operators who do less than $500,000 a year. This would coincide with the statutory provision with respect to packers. This would be the largest decrease in the program.

We would also cut back somewhat on investigations and observing scale testing. The agency is not in the business, really, of testing scales, but we do observe testing. We will continue to work very closely with the States and private testing agencies that have that responsibility. We will continue to check weighing, and so forth, but cut back on our own observation of scale testing.

In closing, let me reemphasize that the amount requested does include the restoration of the 1982 pay costs which we had to absorb in this year's budget. With that, Mr. Chairman, I would be glad to answer any questions that you have.

Senator COCHRAN. Thank you very much, Mr. Jones.

REGULATORY REVIEW

In connection with the reduction to eliminate bonding of dealers and order buyers, is that something that you can do within your existing authority or would you have to have legislation enacted to give you that authority?

Mr. JONES. No, it could be done administratively. There is a provision in the statute which mandates registration for dealers and order buyers that operate at posted stockyards. But under the bonding authority in the Act, it is possible for us to change the bonding requirements administratively.

Senator COCHRAN. I have had some people in the stockyards business indicate an interest in having Congress review the basic law, suggesting that there may be some features of it that are out-of-date and that need updating. In your experience in running this agency, do you see the need for reform legislation in this area to maybe lessen the regulatory expense that might be attendant to this entire program under the Packers and Stockyards Act?

Mr. JONES. Mr. Chairman, let me answer that in two different ways. First of all, prior to my coming to the agency, I had in my previous occupation actually been regulated by the Act, and I have been involved with it for many years. The P&S Act, in my view, is one of the best structured acts that the Congress ever passed. Its writers knew the subject. They didn't do it like other laws which make everyone subject and then start making a lot of exceptions. It is very well written. It is sufficiently broad and yet specific enough to allow the Secretary to change with the times and still be within the statutory authority. The Act still to me today is very well constructed.

We did make some major changes in 1976, and some other changes in 1978. But at this point, in my view, there is no need for any major overhaul of the Act itself.

Now with respect to the regulatory burdens, the agency did get the jump on the deregulation movement before it became a fashionable thing in town. An internal task force was appointed to review all policy statements and regulations. It came forth with recommendations that were distributed to the industry and other interested parties. We did this, so we could discuss it on an informal basis without being limited by formal rulemaking. This has been going on for several months. We have had excellent input into that process. Through this process, we will be amending some of the regulations; we will be dropping some of them; and we will be cutting out some forms we have previously required. So the regulatory burden will be reduced.

But coming back to the original question, my recommendation at this point is no, we don't need an overhaul of the Act itself.

Senator COCHRAN. Well, I appreciate having your advice and counsel on that subject. I know that last year when the Vice President was assigned the job of chairing this Task Force on Regulatory Reform, a great deal of success resulted from the in-depth review of Government regulations across the board. Some say as much as $15 billion has been saved to consumers as a result of the work of that task force in reducing the overall costs of Government regulations and eliminating some regulations that were not really effective or needed. I am glad to know that your office is involved in that too.

Have you come up with any specific recommendations at this point that you are making to the Vice President's Task Force or that you are considering implementing?

Mr. JONES. There were actually very few P&S regulations that were mentioned by the Task Force Mr. Bush is chairing. The ones that were mentioned, we have addressed. One of the ones that was specifically mentioned is being addressed in an upcoming group, and we will recommend a change. We are informing the task force of the changes that we contemplate and are keeping them informed on the progress we are making. Our review is very much in harmony and very much in line with the intent of the Task Force work.

Senator COCHRAN. Can you tell us what that recommendation will be?

Mr. JONES. At this point I cannot, sir, because we have entered the formal rulemaking process, or are on the threshold of it. So I would have to defer. But we will give the industry a 60-day comment period on that particular regulatory change. I will be glad to discuss it with you privately or with your staff.

Senator COCHRAN. Thank you very much.

FISCAL YEAR 1983 BUDGET REDUCTION

In view of the reduction in the funding request for next year, are you going to have to eliminate employees, or will you be able to reach the reduced funding level by decreasing the bonding requirements?

Mr. JONES. The majority of the agency expenditures is personnel oriented; some 80, 85 percent of our costs are either personnel or personnel-related. For us to make reductions in program costs means we have to address the personnel issue. We have, to date, taken a RIF action to separate 27 people from the agency. We will have additional retirements. We will wind up this year with approximately 30 less employees than we started with at the beginning of fiscal year 1982.

Senator COCHRAN. Will you be able to continue to carry out the mandates of the law that you operate under even with this reduced level of funding?

Mr. JONES. Well, like a lot of other people, we can always use more money, and we think we could use it effectively. We have reviewed our priorities, however, and I look upon that as perhaps being the greatest benefit of the reductions that have taken place. We will simply adjust our priorities to give attention to those most important to the industry, and we will then be in a position to effectively enforce the statute.

SUBMITTED QUESTIONS

Senator COCHRAN. Thank you very much, Mr. Jones. I appreciate your being here, your testimony, and the help you have provided to the subcommittee.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

OFFICE OF TRANSPORTATION

QUESTIONS SUBMITTED BY SENATOR COCHRAN

RESEARCH PROJECTS

Question: How much money is proposed to be spent on research projects in fiscal year 1983?

Answer: In fiscal year 1983 $938,000 is proposed to be spent on research projects.

Question: What projects are being contemplated and what will be the Federal and non-Federal contributions to these projects?

Answer: We anticipate the following projects will be undertaken during 1983. The listed costs represent Federal contributions, totaling $938,000. The non-Federal contributions have not yet been determined.

1. Energy Efficient And Alternative Perishable Food Transport Systems; $182,295.
2. Improved Shipping Systems for Bees; $38,312.
3. Improved Equipment and Methods for Shipping Livestock by Rail; $45,890.
4. Transporting Live Animals by Air; $75,781.
5. Transporting Live Animals by Sea; $60,765.
6. International Agreement on Transport of Perishables; $78,588.
7. Modification of In-Service Refrigerated Trailers; $38,311.
8. Improving Refrigerated Transport of Perishables in Van Containers, Trailers, and Railcars; $83,219.
9. Standard Size Shipping Containers for Fresh Produce; $83,219.
10. USDA Export Handbook; $45,890.
11. Feasibility Study of Van Containers for Storage and Transport of Certified Soybean Seed and Food Grade Soybeans; $53,327.
12. Technical and Economic Considerations for Increasing Exports of Frozen Poultry and Meat; $152,403.

FISCAL YEAR 1983 BUDGET

Question: How much of your budget will be contracted out in fiscal year 1983?

Answer: In fiscal year 1983 $619,000 is proposed to be spent on contractual services.

Question: And for what will these funds be used?

Answer: These funds will be used according to the sub-object class breakdown as follows:

2500	Other Services	$238,843
	-Contracting for additional deregulation assessment	
	-Washington Computer Center	
	-Mars Data	
	-Equipment Leases	
	-General Electric	
2501	Reimbursements and Advances to Other Government Agencies	
	-Transportation Systems Center, Department of Transportation	380,157
	-Interstate Commerce Commission	
	-Agricultural Marketing Service overhead	
	-Agricultural Research Service rent	
	-Departmental working capital fund	
	TOTAL	$619,000

DEREGULATION ASSESSMENT

Question: You indicated in your statement that the Office of Transportation will complete its deregulation study or assessment early this summer. What will be the total cost of this study?

Answer: The cost for the outside contractors will be $42,500. This does not include the cost of the in-house transportation specialists, who will be doing a portion of the study, which will be approximately $43,500.

Question: How much of that was Federal funds?

Answer: All of the funds would be Federal.

Question: How much non-Federal?

Answer: No non-Federal funds are being used.

Question: Do you have some preliminary findings? Please list.

Answer: The initial planning meeting was just concluded the last of February and no preliminary work has been completed to date.

AGRICULTURAL COOPERATIVE SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

IMPACT OF BUDGET REDUCTION ON ASSISTANCE TO COOPERATIVES

Question: The mission of the Agricultural Cooperative Service is to provide technical assistance to cooperatives and to improve cooperative performance. What has the impact of the current economic situation been on agricultural cooperatives and how will the proposed reduction in your budget impact on your ability to provide assistance to cooperatives?

Answer: While most agricultural business firms have been adversely impacted by the economic situation, its impact on cooperatives has been particularly telling. Our financial profile studies indicate that cooperatives' net worth section of the balance sheet has been slipping in recent years. They, therefore, entered this period of unprecedented interest and inflation rates in a weak financial posture. Noncooperative firms have maintained a somewhat stronger equity to total assets ratio and entered this period with more to fall back on. Based on requests for ACS assistance and our knowledge of numerous red ink annual reports, cooperatives involved in grain marketing, fruit and vegetable processing, and more recently farm supplies, have been hit especially hard.

The Agricultural Cooperative Service has experienced a significant increase in requests for technical assistance during the past fiscal year. For example, during FY 1980, we received 27 requests for technical assistance. In FY 1981, we received 58 new requests for assistance, and since October 1, 1981, we have received 21 requests. We anticipate an even greater demand for our services as the year progresses. Counting the continuation of work on requests received earlier plus the 58 new requests in 1981, the agency was actively engaged in 96 technical assistance efforts during FY 1981 involving 114 different cooperative groups and organizations.

The agency has been under a hiring freeze since the first of 1982. Actual distribution of cuts will depend somewhat on attrition, however, if we are to achieve the budget and personnel ceilings now proposed for FY 1983, the agency might have to undergo a reduction in force. Such a reduction in staff of the agency will limit our ability to provide assistance to cooperatives through our research and especially our technical assistance to new and developing cooperatives. One likely result will be the necessity of closing one or more of our field office locations.

STATUS OF HAWAII FIELD OFFICE

Question: The conference report on the FY 1982 bill directed that of the funds provided for the Agricultural Cooperative Service, $139,000 was to be used to open an office in Hawaii. What is the status of the Hawaii office?

Answer: During the second week in March, an exploratory trip was made to Hawaii for the purposes of selecting office location and investigating possible arrangements for acquiring office space and office support services. Since the agency is presently under a total hiring freeze, we plan to temporarily reassign one of our Washington staff to Hawaii to open the field office and begin operations. This person will be in the State by May 1, 1982. We are continuing to investigate alternative means of staffing the office on a permanent basis.

RESEARCH CONDUCTED BY LAND-GRANT COLLEGES

Question: It is my understanding that a significant portion of your research work is contracted out to land-grant colleges and universities. Will this activity be able to be condinued in FY 83?

Answer: No sir, it will not. Let me explain. The total Agricultural Cooperative Service research program on cooperatives is divided between research done in-house by ACS staff and that done through contracts and cooperative research agreements with colleges, universities, private individuals, and research organizations. The amount of research done by the Agricultural Cooperative Service staff has been limited by the number of technical assistance and other program work the agency must do, the limit on agency hiring, and the lack of staff research expertise to do certain types of necessary research. For the last two reasons in particular, we have conducted an increasing amount of our research through contracts and agreements during the past two years. Under the proposed FY 1983 budget, we anticipate a reduction of about one-third in our overall research program. The work conducted through cooperative research agreements with land-grant colleges and universities will be almost entirely eliminated.

PACKERS AND STOCKYARDS ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR COCHRAN

TASK FORCE RECOMMENDATIONS

Question: In your Explanatory Notes, you indicated that an internal task force had completed its review of all regulations and policy statements and made recommendations that would remove regulatory burdens from industry without restricting the Agency's effective enforcement of the Packers and Stockyards Act.

Would you please list for the record the recommendations of the task force.

Answer: A summary of the recommendations of the task force is included. See Attachment "A".

Question: Were these recommendations made available to the industry? If so, to whom, and what has been the response?

Answer: The Task force report has been widely circulated to Members of Congress, trade associations, producer organizations, and all State Departments of Agriculture, as well as numerous other individuals requesting the report. We have also met and discussed the report with all the major industry associations and we are now in the process of formulating and publishing proposals pertaining to specific regulations and policy statements in the Federal Register for comment.

Forty-six comments have been received on the final report of the Task Force. These are primarily from the State Departments of Agriculture and the major farm and trade associations. The comments have generally been very favorable to the report.

Attachment A

TASK FORCE RECOMMENDATIONS
FOR ELIMINATION OF RESTRICTIONS AND REQUIREMENTS

A task force was established on January 12, 1981, to review all regulations and Statements of General Policy issued under the Packers and Stockyards Act. The instructions to the task force were "to carefully consider the elimination of requirements on the industry in relation to properly enforcing the Act for the protection of the livestock producer". The task force has completed its work and submitted a final report of its recommendations to Mr. James L. Smith, Acting Administrator, Packers and Stockyards Administration.

The last comprehensive review of the regulations was conducted in the early 1950's. Almost all of these regulations have been reviewed and modified since that date. Sections 201.98 through 201.200 of the regulations and all of the policy statements have been promulgated since 1954.

Most of the regulations have been promulgated and amended to deal with particular problems in the livestock marketing industry. Many of the current regulations have served a useful purpose in the past, but because of changes in livestock marketing over the past 30 years, they can now be withdrawn or modified without adversely affecting the interest of the livestock producers or the enforcement of the Packers and Stockyards Act. The task force has submitted recommendations which would result in the elimination of 46 of the 104 regulations which are currently in effect. Of the 46 regulations which would be eliminated, 29 would be revoked and 17 would be consolidated with other regulations. In addition, the task force recommendations propose reducing or eliminating many of the requirements contained in the 58 remaining regulations. Six of the current sixteen policy statements would be revoked under the task force proposals.

Although a number of the task force proposals recommend elimination or reduction of unduly restrictive or burdensome regulatory requirements, we believe it is important to stress that not all of the recommended revocations or reductions in requirements would result in permitting practices currently prohibited. This is because certain regulations merely restate provisions of the Act or deal with practices clearly unlawful under the Act.

In addition to reducing the regulatory burden on the livestock marketing industry, many of the task force recommendations would update and streamline the regulations and policy statements and make them easier for the industry to understand and follow. We believe many of the recommemdations will help us to achieve greater efficiency in administering the provisions of the Act.

Following is a summary of the task force recommendations which, if adopted, will result in removing regulatory restrictions and requirements which are not otherwise prohibited or required by statute or other regulations:

1. Revocation of sections 201.7 and 201.13 would remove the requirement for registrants and stockyards to notify the Administrator of name, address, and management changes within 10 days. This information is available to P&S from annual reports and other sources.

2. One of the recommended changes in section 201.10 would eliminate the requirement for persons applying for registration to file a financial statement. Registrants would still be required to maintain current assets at least equal to their current liabilities and registrants purchasing more than $1,300,000 worth of livestock annually would continue to be required to file a balance sheet on their annual reports.

3. The task force proposals with respect to the tariff regulations, sections 201.17 through 201.26, would remove the requirements with respect to the style and form of tariff. The Administration discontinued routinely reviewing the level of rates and charges in 1978. A policy statement was issued in October 1978 setting forth our policy of allowing competition in the market place to set the level of rates.

4. A recommended change in section 201.29 would exempt small dealers and order buyers, purchasing less than $500,000 of livestock annually, from the bonding requirements.

5. One of the proposed changes in section 201.42 would increase the length of time for a selling agency to reimburse its custodial account for uncollected receivables from 3 to 7 days.

6. Another recommendation concerning section 201.42 would permit custodial account funds to be maintained in an interest bearing savings account as well as certificates of deposit.

7. A recommended change in section 201.43 would eliminate the requirement for a selling agency to routinely show the name of the buyer on the seller's invoice. However, the task force recommendation concerning the trade practice regulations would combine the current requirement that the market agency disclose the buyer's name on the seller's

invoice when the market agency or an owner, officer, or employee purchases the livestock.

8. Revocation of section 201.45 would remove the requirement for a selling agency to make bills covering charges relating to a transaction available for inspection by the buyer and seller. This would not effect the market agency's duty to give a full and accurate accounting of a transaction.

9. The task force recommendations with respect to sections 201.47, 201.56, 201.57, 201.58, 201.59, 201.60, 201.62, and 201.66 of the trade practices regulations would remove or reduce several restrictions of the business activities of selling agencies. The task force recommendations would permit owners, officer, agents, and employees, except key employees (auctioneers, weighmasters, ringmen), to purchase livestock from consignments to fill orders as a market agency buying on commission, provided the livestock is first offered for sale on the open market, and would eliminate the restriction on collecting a buying commission when the market agency uses consigned livestock to fill orders. Under the recommendations, key employees would be permitted to buy out of consignments for their own farm or ranch operation.

   When a market agency purchases livestock from consignment to support the market and they resell the livestock the same day, they would no longer be required to remit any profit to the consignor under the task force proposal. This change would not permit sales from consignments in any manner which would not be in the best interests of the consignors.

   The task force recommendations would eliminate the prohibition on sales by a dealer at a market where he is employed.

10. The task force recommendations would remove from sections 201.49 and 201.107 the requirement for scale tickets to show the name or initials of the weighmaster.

11. The recommendation with respect to the disposition of records would reduce from 3 years to 2 years the retention period for certain financial records of packers.

12. Revocation of section 201.51 would eliminate the requirement for stockyard owners to furnish copies of contracts they enter into to the Administrator.

13. The task force recommendation with respect to section 201.61 would modify the restriction on financing dealers. This recommendation would eliminate the restriction on buying agencies purchasing from a clearee as long as the buying agency makes a full disclosure to its principal.

14. Revocation of section 201.65 would eliminate the restriction on employment of salesmen on a split commission basis.

15. The suggested change in section 201.67 would remove the restriction on separately registered dealers having a financial interest in a selling agency.

16. The suggested revocation of section 201.77 would eliminate all requirements for scale tickets when livestock is weighed for purposes other than purchase or sale (catch weights).

17. Revocation of section 201.80 would remove the requirement that stockyard owners restrict the use of their facilities by suspended or unregistered dealers and market agencies.

18. Revocation of policy statement 203.3 would eliminate the *per se* restriction on meat packer sales promotion programs based on a "point system".

Attachment B

State license, bond, trustee, and prompt laws
as of January 29, 1982

State	Auction Markets				Dealers				Packers			
	License	Bond minimum/ maximum	Trustee	Prompt pay	License	Bond minimum/ maximum	Trustee	Prompt pay	License	Bond minimum/ maximum	Trustee	Prompt pay
Alabama	Yes	$10,000 $50,000	Yes	Yes	Yes	$10,000 $50,000 +10%	Yes	Yes 26/	Yes	$10,000 $50,000 +10%	Yes	Yes 26/
Alaska	No	No	No	No	No	No	No	No	No	No	No	No
Arizona	No	No	No	No	No	No	No	No	No	No	No	No
Arkansas	No	No	No	No	No	No	No	No	No	No	No	No
California	Yes	31/	No	Yes 29/	Yes	1 31/	No	Yes 30/	Yes	1/ 31/	No	Yes 30/
Colorado	Yes 25/	$25,000	Vol.	Yes 8/	Yes	$2,000 $200,000	Vol.	Yes 24/	Yes	$2,000 $200,000	Vol.	Yes 24/
Connecticut	Yes	$10,000	No	Yes	Yes	$10,000	No	Yes	No	$10,000	No	Yes
Delaware	No	No	No	No	No	No	No	No	No	No	No	No
Florida	No	P&S bond	No	No	No	$1,000 $50,000	No	No	No	$1,000 $50,000	No	No
Georgia	Yes	No	Yes	Yes	Yes	$1,000 $50,000 23/	Yes	Yes	No	$1,000 $50,000 23/	Yes	Yes 6/
Hawaii	No	No	No	No	No	No	No	No	No	No	No	No
Idaho	2/	$10,000 P&S formula	No	No	Yes	No	No	No	3/	No	No	No
Illinois	Yes	$10,000 P&S formula	Yes	No	Yes	$6,000 4/ 3-day avg.	Yes	No	Yes	$6,000 $50,000 +15%	Yes	Yes
Indiana	Yes	$2,000 P&S formula	No	No	Yes	$2,000 5/ P&S formula	No	No	Yes	$2,000 5/ P&S formula	No	No
Iowa	No	No	No	No	Yes 6/	$10,000 6/	No	Yes 7/	Yes	$5,000 7a/	Yes	Yes 7/
Kansas	Yes	$20,000	Yes	Yes	No	No	No	No	No	No	No	Yes
Kentucky	Yes	$2,000 $10,000	Vol.	No	Yes	$2,000 $10,000 5/	Vol.	No	Yes	$2,000 $10,000 5/	Vol.	No
Louisiana	Yes	$10,000	Yes	No	Yes	$5,000	Yes	No	No	No	No	No
Maine	Yes	No	No	No	Yes	No	No	No	No	No	No	No
Maryland	No	No	No	No	No	No	No	No	No	No	No	No
Massachusetts	No	No	No	No	Yes	No	No	No	No	No	No	No
Michigan	Yes	$1,500 17/	Vol.	No	Yes	No	No	No	No	No	No	No
Minnesota	Yes	Yes $10,000 P&S formula	Yes	No	Yes	Yes $5,000 P&S formula	Yes	No	Yes	Yes $10,000 P&S formula	Yes	No
Mississippi	Yes	$10,000	No	No	Yes	$10,000 9/	No	No	Yes	$10,000 9/	No	No
Missouri	Yes	Yes $2,000 or as designated	Yes	No	Yes 10/	No	No 18/	No	Yes 10/	No	No 18/	No
Montana	Yes	Yes $10,000	Vol.	No	Yes	Yes $5,000 P&S formula	Vol.	No	Yes	Yes $5,000 P&S formula	Vol.	No
Nebraska	Yes	$10,000 P&S formula	No	No	Yes	$5,000 P&S formula	No	Yes 11/	Yes	$5,000 11a/	No	Yes 11/
Nevada	Yes	$10,000 $100,000	Yes	Yes 28/	Yes	$10,000 $100,000	Yes	Yes 27/	Yes	$10,000 $100,000	Yes	Yes 27/
New Hampshire	Yes	No	No	No	Yes	No	No	No	No	No	No	No
New Jersey	Yes	No	No	No	Yes	No	No	No	Yes	No	No	No
New Mexico	Yes	Yes $10,000 P&S formula	Vol.	Yes	No	No	No	No	Yes	$1,000	Yes	No
New York	Yes	$5,000 $200,000	No	Yes 15 days	Yes	$2,000 $200,000	No	Yes 15 days	Yes	$2,000 $200,000	No	Yes 15 days

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State license, bond, trustee, and prompt laws
as of January 29, 1982--Continued

State	Auction markets				Dealers				Packers			
	License	Bond minimum/ maximum	Trustee	Prompt pay	License	Bond minimum/ maximum	Trustee	Prompt pay	License	Bond minimum/ maximum	Trustee	Prompt pay
North Carolina .	Yes	P&S bond	No	Yes	Yes	No	No	Yes 26/	No	No	No	Yes 26/
North Dakota . .	Yes	Yes $10,000 P&S formula	Yes	No	Yes	Yes 5,000 P&S formula	Yes	No	Yes	Yes $10,000 P&S formula	Yes	No
Ohio	Yes	$10,000 12/	No	No	Yes	$10,000 12/	No	No	Yes	$10,000 $50,000 +10%	No	No
Oklahoma . .	Yes 20/	Yes $5,000 P&S formula	No	No	No	No	No	Yes 19/	No	No	No	Yes
Oregon	Yes	$10,000 P&S formula	Vol.	No	No	$5,000 P&S formula	Vol.	No	Yes	$20,000 13/	No	Yes
Pennsylvania . .	Yes	No	Vol.	No	Yes	No	Vol.	No	Yes	No	No	No
Rhode Island . .	No	$10,000	No	No	No	$10,000	No	No	Yes	$10,000	Yes	No
South Carolina	No	No	No	Yes	No	No	No	Yes	No	No	No	Yes 26/ P&S reg.
South Dakota . .	Yes	Yes $20,000 P&S formula	Yes	No	Yes	Yes $5,000 P&S formula	Yes	No	Yes	Yes $5,000 P&S formula	Yes	Yes 15/
Tennessee . . .	Yes	$10,000 $25,000	Vol.	No	Yes	No	No	No	No	No	No	No
Texas	No	$2,000 $50,000 +10%	No	Yes 48hrs	No	No	No	Yes 21/	No	No	No	Yes 21/
Utah	Yes	$5,000 $100,000	Vol.	Yes 8/	Yes	$5,000 $100,000	Vol.	Yes 24/	Yes	$5,000 $100,000	Vol.	
Vermont	Yes	$5,000 $150,000	Yes	Yes 22/	Yes	$5,000 $150,000	Yes	Yes 22/	Yes	$5,000 $150,000	Yes	Yes 22/
Virginia	No	No	No	No	No	No	No	No	No	No	No	No
Washington . . .	Yes	$10,000 P&S formula	Yes	Yes 16/	Yes	$7,500 P&S formula	Yes	Yes 16/	Yes	$7,500	Yes	Yes 16/
West Virginia .	Yes	Yes P&S bond	Yes	No	No	No	Vol.	No	No	No	No	No
Wisconsin . . .	Yes	No	No	No	Yes	No	No	No	No	No	No	No
Wyoming . . .	Yes	$25,000 P&S bond	Vol.	No	No	No	No	No	No	No	No	No

1/ License and bond required only of dealers and packers who purchase direct from producers, California.
2/ No license required of auctions, but pay fee for charter, Idaho.
Packers are licensed by State Tax Commissioner, Idaho.
4/ $6,000 minimum bond - maximum $50,000 + 15% of excess. Three-days' average business used in computing bond, Illinois.
5/ License and bond required only of dealers and packers who own and operate buying stations, Kenutcky and Indiana.
6/ Feeder pig dealers only, Iowa.
7/ Requires dealers, order buyers and packers who buy for slaughter to pay by the close of the next business day, Iowa.
7a/ $5,000 minimum - 2 full days average purchases, Iowa, no maximum.
8/ 10 days, Colorado and Utah.
9/ Requires bond of dealers and packers who use scales to purchase livestock, Mississippi.
10/ Requires license and bond of dealers and packers who operate buying stations only, Missouri.
11/ Requires dealers, order buyers and packers to pay by close of next business day, Nebraska.
11a/ Must purchase 500 animal units (1 cattle, 3 calves, 5 hogs, 10 sheep) other than through selling agency who is bonded. Shall not be less than the next multiple of $5,000 above the average of all purchases from Nebraska residents during a period equivalent to 2 business days.
12/ Bond computed on basis of an average of the 10 highest days business, Ohio, 250 cattle or 500 small stock.
13/ Law effective 1-1-76 -- Packers will be required to file minimum bond of $20,000; no maximum, Oregon. Sellers of livestock will have priority claims over other creditors 2-days'average, no maximum.
14/ Packers may file satisfactory financial statement in lieu of bond, South Carolina.
15/ Licensed packers required to pay 80% of purchase price at time of delivery (on grade and weight purchases, if requested by seller, South Dakota.
16/ Prompt pay law - 30 days unless otherwise agreed on.
17/ Bond required on basis of 1 week's volume of business up to $25,000 - $1,000 additional bond for each additional $5,000 business in excess of $25,000.
18/ Missouri laws requires trustee, but is not named on executor of bond. State will act as trustee if claims are filed.
19/ Livestock dealers subject to prompt pay law only if they purchase livestock for slaughter, Oklahoma.
20/ Auction markets required to obtain annual license, $25,000 fee also required to have $5,000 bond, but bond is waived if auction has P&S bond, Oklahoma.
21/ Dealers and packers required to pay for slaughter livestock on date of transfer of title.
22/ Vermont - 72 hours from time of purchase.
23/ Bond must not be less than 1/25 of total annual purchases with maximum of $50,000. (Section 62-1903 Ga. Code requires bonds of dealers and packers buying at sales establishments, but bond form is written to cover all purchases made in Georgia).
24/ 30 days from delivery or as specified in contract, Colorado and Utah.
25/ Colorado has 2 laws: (1) for commission merchants, maximum bond of $50,000 and (2) for public livestock markets, minimum bond of $25,000.
26/ Law places responsibility on auction market to collect purchase price of livestock on date of sale, cash, check, or draft, Alabama, Georgia, North Carolina, and South Carolina.
27/ Dearlers and packers required to pay within 30 days from date of delivery or within time specified in contact, Nevada.
28/ Required to pay within 10 days after receipt of money by commission merchant, Nevada.
29/ Remit within 10 days unless otherwise agreed to in writing, California, selling agencies.
30/ Shall pay within 30 days from delivery or as specified in contract, California, packers and dealers.
31/ Pay into a State administered trust fund, will pay 50% of claims up to $25,000.

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LIVESTOCK MARKETING

Question: You indicated the Agency has reorganized the livestock marketing activities. Please list the changes you have made in this regard and the associated improvements or savings.

Answer: The regional offices are now responsible for receiving, processing and filing registrations, bonds, trust funds, tariffs, and related documents. Therefore, the time required for forwarding them to the Washington office for review and acceptance has been saved. The duplicate filing has also been eliminated. The elapsed time for processing each document has been reduced by 1 to 2 weeks. There are about 8,000 documents processed each year. We do not have workload statistics on the program at this time; however, we have abolished five full-time and one part-time position in Washington without any increase in personnel in the field offices.

In addition, the agency is redirecting the livestock marketing program away from routine investigations and audits at public markets to major trade practice, weighing, and fraudulent schemes.

The following table shows our allocation of resources to off-market trade practice investigations and trade practice investigations at public markets:

	Public Markets		Off-Market	
	Man Years	Funds	Man Years	Funds
1980	16.8	588,000	13.9	486,500
1981	18.2	637,000	16.3	570,500
1982 (Est)	16.0	560,000	19.0	665,000
1983 (Est)	14.0	490,000	23.0	805,000

PROCUREMENT PRACTICES

Question: You recently investigated the procurement practices of beef slaughterers in the High Plains area.

Why was this investigation necessary?

Answer: Dramatic changes have occurred in the livestock and meat packing industries in recent years. The High Plains area has produced a high concentration of meat packing firms and an increasing trend toward vertical integration. This trend has resulted in several meat packers acquiring custom feedlots or custom feedlots acquiring meat packers. There is an inherent conflict of interest in such relationships and a potential for restriction of competition. There have been expressions of concern by Congress and the industry over the evolving structure of the industry in the High Plains area. The Department conducted the investigation to determine the competitive effects in this region.

This investigation was necessary to measure the effects of concentration and vertical integration on competition, and to determine if these firms were engaging in any practice in violation of the Packers and Stockyards Act.

Question: What were the findings?

Answer: The investigation developed information on the structure and performance of the fed cattle industry in the High Plains regional market. The pricing strategies of a vertically integrated firm operating custom feedlots were also analyzed. We expect a report to be published by late April and will furnish copies to the Committee.

ELIMINATION OF BONDING DEALERS AND ORDER BUYERS

Question: You are proposing a decrease of $411,000 by the elimination of bonding dealers and order buyers that purchase less than $500,000 worth of livestock annually. It is indicated that State Departments of Agriculture now have the capability to provide bond coverage through their State laws.

What happens in the States that don't have laws to provide for such a program?

Answer: The attached schedule shows the States that have laws which would apply to small dealers and order buyers if our proposal is adopted to eliminate bonding these firms. In the States that have no licensing and bonding laws there would be no coverage and recovery for losses would not be possible through bond claims. Our records indicate that an average of only $51,000 per year in claims for the last 6 years has been covered by bonds filed under the P&S Act by these small firms. See Attachment "B".

SUBCOMMITTEE RECESS

Senator COCHRAN. Our next meeting of the subcommittee will be held next Tuesday, March 23, at 9:30 a.m., in this same hearing room. At that time we will hear from the Food and Nutrition Service and the Human Nutrition Information Service. Until then, the subcommittee stands in recess.

[Whereupon, at 11:40 a.m., Thursday, March 18, the subcommittee was recessed, to reconvene at the call of the Chair.]

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